6
Copy
0574H
20 Sep

The Business Quarterly

FALL 1959 | VOLUME XXIV NUMBER 3

Price $1.50

145 FOREIGN INFLUENCE AND CANADIAN UNIONS • Claude Jodoin

149 THE ROLE OF A SECONDARY MORTGAGE MARKET • Sidney A. Shepherd

157 CURRENT PROBLEMS IN MANAGEMENT DEVELOPMENT • W. A. Thompson

163 THE NEW CHALLENGE OF INDUSTRIAL RELATIONS • H. J. Clawson

169 HOW EFFECTIVE ARE OUR ANTITRUST LAWS • George W. Wilson

174 STOCK OPTIONS FOR MANAGEMENT • John F. Graham

published by The School of Business Administration

UNIVERSITY OF WESTERN ONTARIO

Make your
Castle of Dreams
come true

Few individuals have attained success on day dreams alone. It takes hard work and persistent effort to achieve this goal. But the road to success can be made a great deal easier through education. Education provides a good foundation for a sound, successful future. One way to obtain such a foundation is through regular saving and wise investment.

DOMINION SECURITIES CORPN. LIMITED

Established 1901

TORONTO • MONTREAL • WINNIPEG • VANCOUVER
NEW YORK • LONDON, ENGLAND

the most powerful data processing system in its field

First fully transistorized IBM computer, the new IBM Seven-O-Seventy provides remarkable operating features for both business and science. Capable of handling complex calculations and everyday accounting problems, the IBM 7070 saves time, work and money.

Transistor design reduces space requirements, lowers initial costs and keeps your operating costs low. Also, it can give you information on your business previously impractical to obtain because of the cost. This helps you make decisions faster and helps you plan the growth of your business on a sounder, more factual basis.

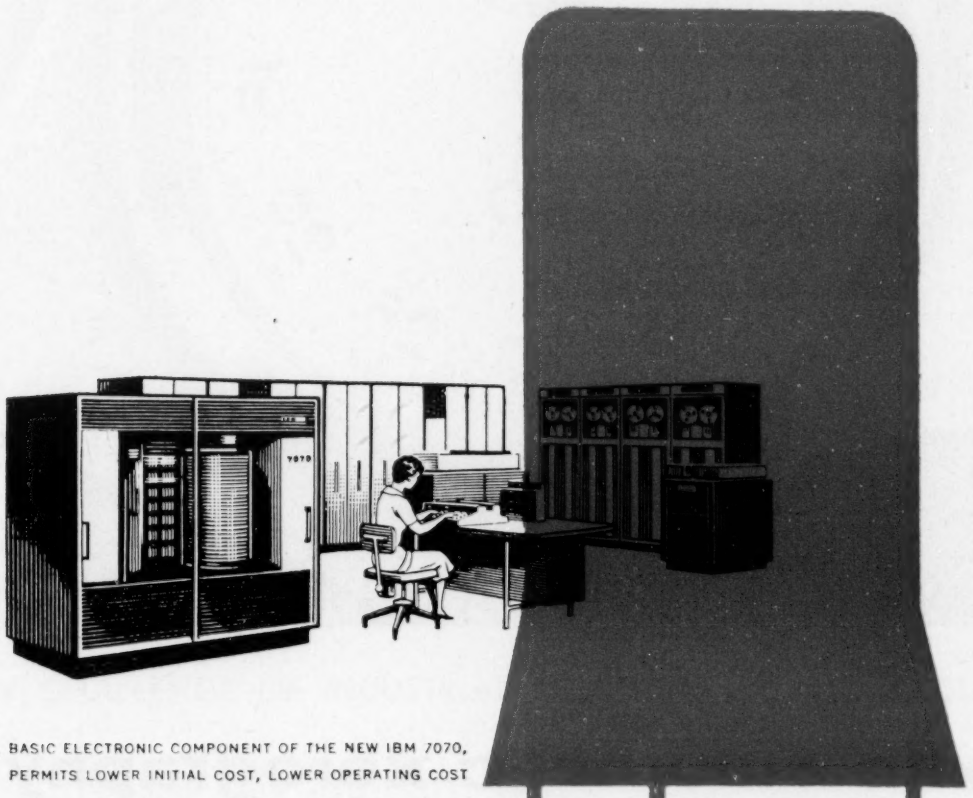
And unexcelled IBM services—ranging from program planning to personnel education—work for you, helping to speed profitable operation and bring a maximum return on your data processing investment. For more complete information on the new IBM 7070 call an IBM representative today.

IBM

INTERNATIONAL BUSINESS MACHINES COMPANY LIMITED

Don Mills Road, Toronto 6, Ontario

BRANCH OFFICES IN PRINCIPAL CITIES ACROSS CANADA



THE TRANSISTOR, BASIC ELECTRONIC COMPONENT OF THE NEW IBM 7070, PERMITS LOWER INITIAL COST, LOWER OPERATING COST

NEW IBM 7070

NOW...with automatic xerography...
copy up to 26 different documents a minute!

Sounds impossible, doesn't it? Copy up to 26 *different* engineering drawings or other documents a minute!

It's being done every day . . . easily, economically, and automatically . . . by a XeroX Copyflo printer.

PUSH
THE BUTTON...
and copies flow!

This ingenious machine operates on the electrostatic principles of xerography . . . the clean, fast, dry process that copies anything written, printed, typed, or drawn.

From a formidable stack of original letters, reports, forms, drawings, etc. . . . or from microfilm . . . it turns out, at the rate of 20 linear feet a minute, *high-quality* copies on ordinary, inexpensive paper.

Moreover, at the same impressive speed, it prepares a series of offset paper masters or makes vellum copies.

Wherever hundreds . . . or thousands . . . of documents must be copied quickly and inexpensively, look to automatic xerography for the happy solution.

Just push the button . . . and copies flow. You can get a different, dry, ready-to-use print every two and a half seconds.

Write for booklet X-287 for complete information.

HALOID XEROX OF CANADA LIMITED
Dept. 15 • 728 Bay Street, Toronto 2

HALOID XEROX

The Business Quarterly

FALL 1959 | VOLUME XXIV NUMBER 3

FOREIGN INFLUENCE AND CANADIAN UNIONS · Claude Jodoin 145

THE ROLE OF A SECONDARY MORTGAGE MARKET · Sidney A. Shepherd 149

CURRENT PROBLEMS IN MANAGEMENT DEVELOPMENT · W. A. Thompson 157

THE NEW CHALLENGE OF INDUSTRIAL RELATIONS · H. J. Clawson 163

HOW EFFECTIVE ARE OUR ANTITRUST LAWS? · George W. Wilson 169

STOCK OPTIONS FOR MANAGEMENT · John F. Graham 174

FEATURES

EDITORIAL 133

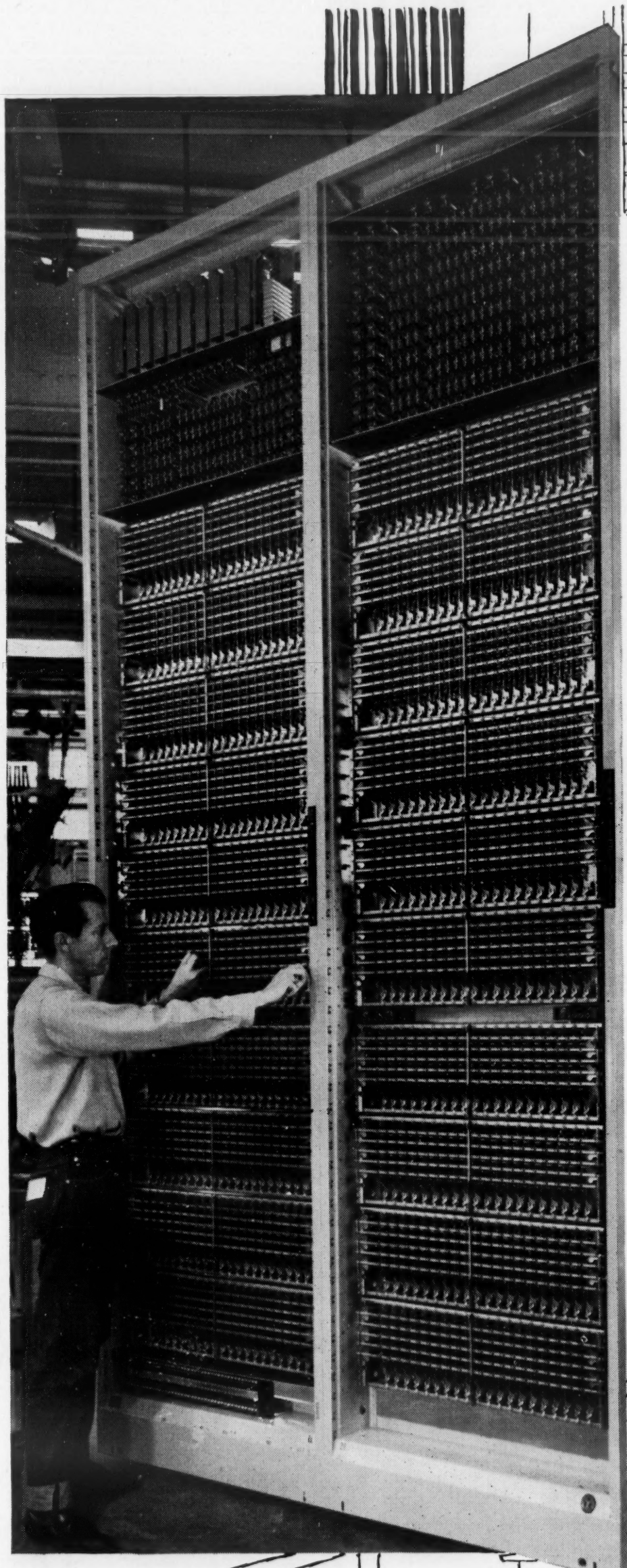
OTTAWA NEWSLETTER · Patrick Nicholson 139

WASHINGTON NEWSLETTER · James M. Minifie 140

TAXATION AND THE BUSINESSMAN · K. W. Lemon 185

LAW AND THE BUSINESSMAN · P. V. V. Betts 186

BOOKS FOR THE BUSINESSMAN 181



The shortest time between two points

Behind every telephone conversation there is a multiplicity of intricate and fascinating pieces of equipment. Much of this is large in size but many of the component pieces are extremely small and of delicate design. Northern Electric leads in the field of Communications. They are ever alert to the latest developments in Communication Equipment.

Northern Electric designs and manufacturers a large proportion of Canada's telephones and its related complex equipment. Their extensive and long experience in telephone communication coupled with their modern manufacturing facilities are at your command. Branches are strategically located across Canada to serve your needs.

Northern Electric

SERVES YOU BEST

2059-1

THE
BUSINESS QUARTERLY

VOLUME XXIV FALL
NUMBER 3 1959

Editor
DAVID S. R. LEIGHTON

Editorial Council
N. M. ARMSTRONG
EMERSON CREED
F. W. P. JONES
DWIGHT R. LADD
L. S. LAUCHLAND
A. D. MISENER
R. K. READY
WALTER A. THOMPSON
AUDREY PLASTER, *Secretary*

Published by—
The School of Business Administration,
University of Western Ontario,
London, Canada.

The views and opinions herein expressed are those of the several authors and do not represent an official opinion of *The Business Quarterly* or the University of Western Ontario.

Manuscripts and correspondence concerning articles should be addressed to the Editor.

A consolidated index of subjects and authors was published for the first 20 volumes in Vol. XX, No. 4. The contents are currently indexed by the Canadian Index, Ottawa, the Public Affairs Information Service, New York, and "Management's Documentation Review", Documation Inc., Woodbury, N.J.

Subscriptions—Single copy, $1.50; One year, $5.00; Three years, $9.50.

Advertising Rates — Furnished by the Business Manager upon request.

All correspondence concerning subscriptions and advertising should be addressed to:
The Business Quarterly,
School of Business Administration
University of Western Ontario,
London, Canada.

Printed by—
Hunter Printing London Limited,
125 Elm Street, London, Canada

Authorized as second class mail, Post Office Department, Ottawa, Canada

A Matter of Opinion

The following Canadian Press report appeared in many Canadian newspapers last September. It is reproduced in full below.

* * *

The Industrial Foundation on Education has reported that fewer than three per cent of the tax-paying corporations in Canada gave financial help to universities and colleges in this country in 1958.

The report, the latest supplement to the foundation's continuing study of corporation aid to higher education, says that the 2,500 companies that made contributions represent just 2.8 per cent of the tax-paying corporations in this country, and that of these firms only 40 per cent had assets in excess of $1,000,000.

Total grants from business and industry to universities and colleges in Canada amounted to approximately $10,400,000, down 10 per cent from 1957. The report says, however, that the direct grants from corporations themselves, at $8,800,000, were about the same as last year. The drop was caused by smaller grants from foundations established by industrialists.

Canadian-controlled companies gave about the same proportion of the total grants as in 1957—64.1 per cent as compared with 65.8 per cent of the total grants in 1957.

Of the foreign-controlled companies, however, the proportion contributed by those controlled in the United States rose from 24.7 per cent in 1957 to 30.1 per cent in 1958.

* * *

Need we comment?

friendly...

efficient...

people make the difference at

THE BANK

Yes, whatever your banking requirements—savings or chequing accounts . . . safety deposit boxes . . . personal and commercial loans . . . or any other banking service—the courteous, capable people at your nearby branch of The Toronto-Dominion Bank *do* make the difference.

At any of our more than 500 branches across Canada, you can be sure of receiving the kind of friendly, *personalized* service that makes dealing the "The Bank" a pleasure for you. So drop in soon, won't you, and see for yourself why . . .

people make the difference at

THE TORONTO-DOMINION BANK

THE BANK THAT LOOKS AHEAD

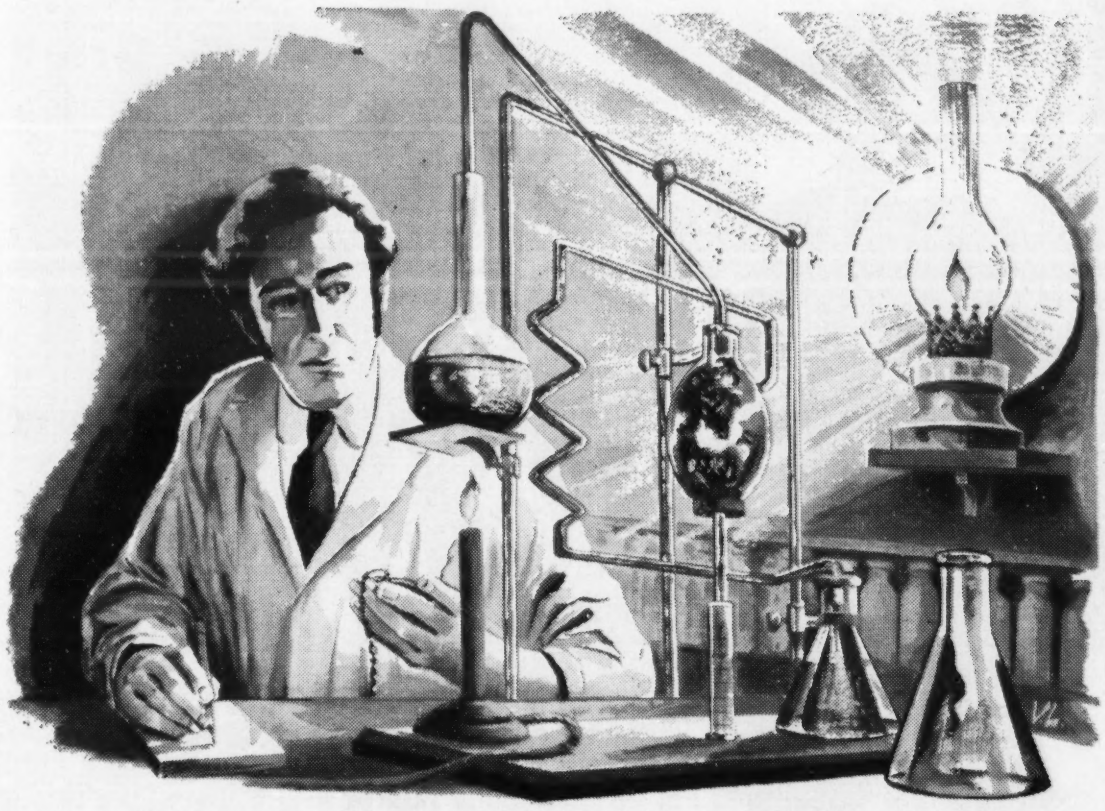
J-9410

About Our Authors

Claude Jodoin, President of the Canadian Labour Congress, was born and educated in Westmount, Quebec. He later took a classical course at Ste. Marie College and Jean de Brebeuf College, Montreal. In 1937 he became an organizer for the International Ladies' Garment Workers' Union. Three years later he was made assistant manager of the Montreal Joint Board of the Dressmakers' Union, and in 1947 became manager. He held the offices of vice-president of the Montreal Trades and Labor Council, 1940-42; vice-president of the Trades and Labor Congress of Canada, 1949-54; president of the Montreal Council, 1947-54; chairman of the National Union Label Committee of the TLC, 1952-54. He was elected president of the TLC in August, 1954. In April, 1956 he became the first president of the Canadian Labour Congress at its founding convention in Toronto, and was re-elected unanimously at the second convention in Winnipeg, April, 1958. He has been a member of the executive board of the International Confederation of Free Trade Unions since 1949, and of the Governing Body of the International Labour Organization since 1950. For two periods, 1940-42 and 1947-54, he served as a city councillor in Montreal and was a member of the Quebec Legislature for Montreal-St. James in 1942-44. During World War II he was a captain in the Royal Fusiliers, Second Battalion Reserve. Mr. Jodoin is a member of the Advisory Council of the National Research Council, Canadian Red Cross Society, Canadian-American Committee, and the Canadian Institute of International Affairs.

Born and educated in England, **Sidney Albert Shepherd** is a Fellow of the Institute of Bankers, England and Fellow of the Canadian Bankers' Association (Honours). For five years he was with the National Bank of South Africa Ltd. (Barclays Bank D.C. & O.), London, England. He is currently on the staff of the Bank of Montreal, and since coming to Canada in January, 1959 has served much of the time as a foreign exchange specialist in the bank's offices in Vancouver, Toronto and Montreal. From 1943 to 1947 he was on loan to the Wartime Prices and Trade Board in the textile field, and from January 1946 held the appointment of Administrator of Cotton &

continued on next page



"...even midnight oil"

In the last century, scientists looked to "midnight oil" for illumination. Today they have discovered in that very oil a whole new source of energy and productivity.

The first, humble oil-flame, which gave only feeble light and heat, now explodes into power to drive its masters faster than the speed of sound. And what the first oil men considered waste is, today, refined by Texaco Canada Limited, among others, to produce the very elements of our modern existence, from gasolines and important drugs to sausage casings.

Texaco Canada Limited is a fully integrated oil company engaging in exploration, producing, refining, road, rail and water transport, and the operation of marine terminals, bulk storage plants, and pipelines.

With Texaco products sold at service stations from the Atlantic to the Pacific, Texaco Canada Limited spans the nation. Strategically located bulk plants deliver top-quality petroleum products anywhere from coast to coast to all types of consumers — industrial plants, farms, transportation companies, and a host of others.

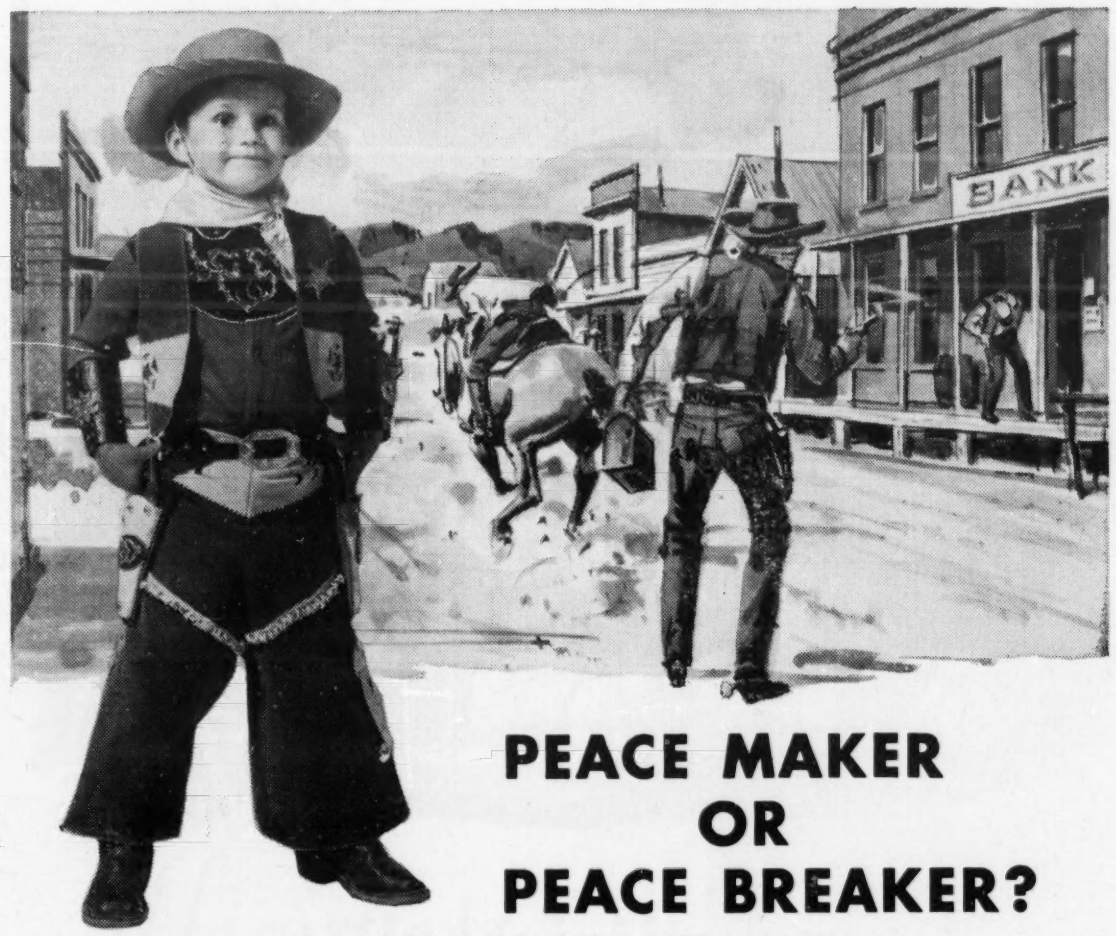
Today the production and distribution of oil and its derivatives is North America's most vital industry. Texaco Canada Limited is proud of its position in that industry and seeks to play an increasingly useful part in building Canada's future.

There's a future for you in the oil industry

TEXACO CANADA LIMITED

Texaco Petroleum Products

TEXACO



PEACE MAKER OR PEACE BREAKER?

Your own cowboy may never ride a horse, but he can be a greater influence for peace than any Western hero. His future is your decision to-day! Canada promises its young men and women with higher education and social understanding a future without equal in the world to-day. Experts agree, however, that in a nation of specialists, the unprepared will find almost insurmountable hardships in competing for a constantly decreasing number of unskilled jobs.

The family that learns together . . . earns together, both in intellectual growth and material gains that make life . . . living. To-day, you can make sure that your children will enjoy the good things of life with Crown Life's exclusive Special Premium Endowment. This new concept in financial planning gives you more money to spend to-day, yet more money to-morrow when it will be needed the most. S.P.E. guarantees life insurance protection if it is needed or all of your money back at 65 plus a liberal profit on your deposits. S.P.E. assures you that you and your family will always enjoy the warmth of each other's companionship and the dignity of independence. Ask your Crown Life representative to explain S.P.E. or send in the coupon below.

CROWN LIFE

ESTABLISHED 1900 **INSURANCE COMPANY** HOME OFFICE: TORONTO, CANADA

Send in the coupon today

CROWN LIFE—120 Bloor St. E., Toronto, Ont.

I would like to see how S.P.E. will give me even more money to spend to-day, yet more money to have to-morrow.

Name_____

Address_____

City_____ Province_____

About Our Authors cont.

Cotton Products. He was recalled in 1947 to become Manager of the Bank's Foreign Exchange Department, and following the Government's announcement in 1953 that the chartered banks were to be permitted to enter the mortgage lending field, was charged with the organization of the Bank's mortgage lending facilities. He is the immediate past president of the Society of Residential Appraisers, Montreal Chapter. In addition to having written a number of articles on various subjects, he is also the author of the book *Foreign Exchange in Canada.*

Walter A. Thompson, Director of the Management Training Course and Associate Dean of the School of Business Administration, University of Western Ontario, has been associated with the school since his graduation from the Harvard Business School in 1930. During the war year he was in charge of the research division of the Office of Price Administration in Washington, D.C. He is also consultant to the Canadian National Railways on staff development programs, and has headed Western's Management Course since its inception following World War II.

Vice President in charge of Personnel for the Steel Company of Canada, **Harold J. Clawson** has been involved in a wide variety of union negotiations since he began his career in personnel administration and labour relations in 1942. He has also appeared on behalf of management before numerous conciliation and arbitration boards, as well as being a management member of a number of such boards. He is a director of Central Ontario Industrial Relations Institute, ex-chairman of the National Industrial Relations Committee of the Canadian Manufacturers' Association, and former member of the advisory committee of McGill University Industrial Relations Centre. He received his LL.D. from the University of Saskatchewan, and prior to joining the Steel Company of Canada Limited in 1954, worked for Defence Industries Limited, Canadian Industries Limited and Crane Limited. The author of numerous articles, papers and speeches on personnel administration, industrial relations, labour law and arbitration, Mr. Clawson has also lectured and conducted seminars in this field at various Canadian universities.

Continued on Page 194

Coast-to-coast address of
these noted Canadian brands!

On Quality Street at Eaton's, shoppers right across the country find the familiar Canadian brands that stand for good values in a wide range of trusted-quality merchandise.

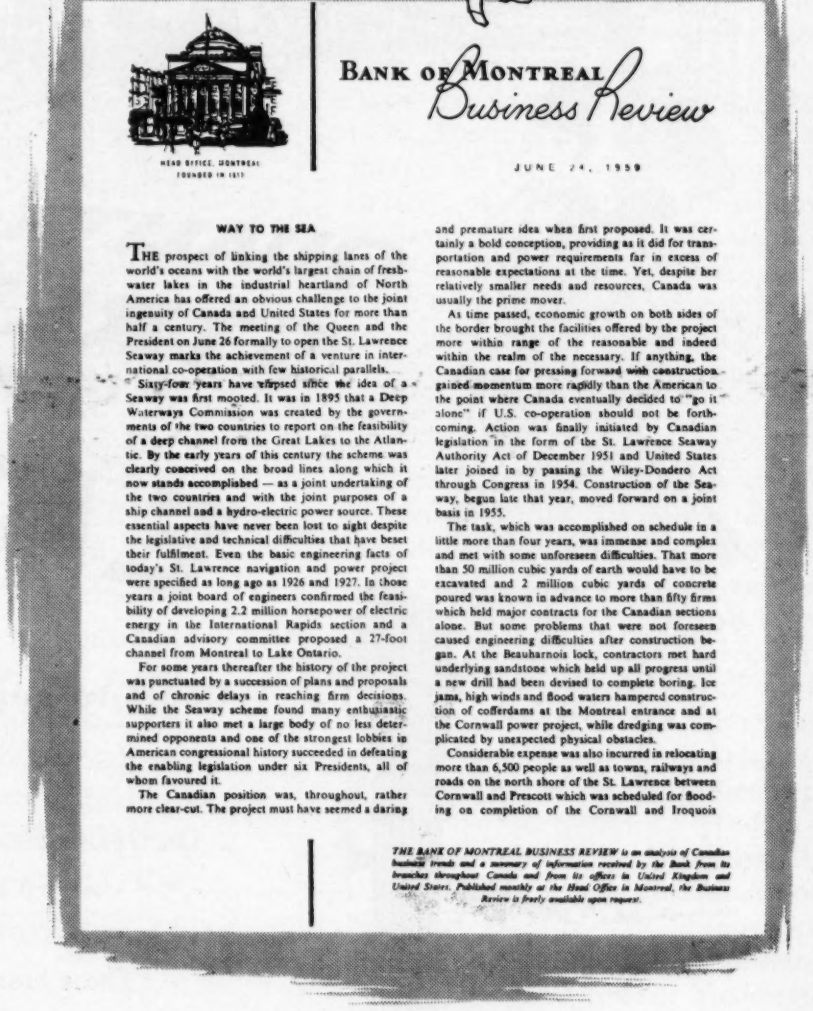
These brands give sound assurance that, no matter what you pay, you receive full measure of down-to-earth *value* for every penny of your shopping dollar!

Babyfair · EATON'S · Acme · Lady Fair · Braemore · TRULINE
Renown · optina · TECO · Cottage Sweets · Commander · SOLAR
belle fair · La Reine · BULLDOG · Glider · Mountie · Bonnie Brae

It's BLACK and WHITE

and read all over!

Informed businessmen wishing to *stay* informed read the Bank of Montreal Business Review regularly. Here, in black and white, is a concise monthly spotlight on the Canadian business scene that's invaluable in keeping you abreast of economic affairs. And it's read by businessmen all over the world! There's a personal copy available for *you* each month—mailed free of charge—at the Business Development Department, P.O. Box 6002, Montreal 3, P.Q. Drop us a line today!



HEAD OFFICE, MONTREAL
FOUNDED IN 1817

BANK OF MONTREAL *Business Review*

JUNE 24, 1959

WAY TO THE SEA

THE prospect of linking the shipping lanes of the world's oceans with the world's largest chain of fresh-water lakes in the industrial heartland of North America has offered an obvious challenge to the joint ingenuity of Canada and United States for more than half a century. The meeting of the Queen and the President on June 26 formally to open the St. Lawrence Seaway marks the achievement of a venture in international co-operation with few historical parallels.

Sixty-four years have elapsed since the idea of a Seaway was first mooted. It was in 1895 that a Deep Waterways Commission was created by the governments of the two countries to report on the feasibility of a deep channel from the Great Lakes to the Atlantic. By the early years of this century the scheme was clearly conceived on the broad lines along which it now stands accomplished — as a joint undertaking of the two countries and with the joint purposes of a ship channel and a hydro-electric power source. These essential aspects have never been lost to sight despite the legislative and technical difficulties that have beset their fulfilment. Even the basic engineering facts of today's St. Lawrence navigation and power project were specified as long ago as 1926 and 1927. In those years a joint board of engineers confirmed the feasibility of developing 2.2 million horsepower of electric energy in the International Rapids section and a Canadian advisory committee proposed a 27-foot channel from Montreal to Lake Ontario.

For some years thereafter the history of the project was punctuated by a succession of plans and proposals and of chronic delays in reaching firm decisions. While the Seaway scheme found many enthusiastic supporters it also met a large body of no less determined opponents and one of the strongest lobbies in American congressional history succeeded in defeating the enabling legislation under six Presidents, all of whom favoured it.

The Canadian position was, throughout, rather more clear-cut. The project must have seemed a daring and premature idea when first proposed. It was certainly a bold conception, providing as it did for transportation and power requirements far in excess of reasonable expectations at the time. Yet, despite her relatively smaller needs and resources, Canada was usually the prime mover.

As time passed, economic growth on both sides of the border brought the facilities offered by the project more within range of the reasonable and indeed within the realm of the necessary. If anything, the Canadian case for pressing forward with construction gained momentum more rapidly than the American to the point where Canada eventually decided to "go it alone" if U.S. co-operation should not be forthcoming. Action was finally initiated by Canadian legislation in the form of the St. Lawrence Seaway Authority Act of December 1951 and United States later joined in by passing the Wiley-Dondero Act through Congress in 1954. Construction of the Seaway, begun late that year, moved forward on a joint basis in 1955.

The task, which was accomplished on schedule in a little more than four years, was immense and complex and met with some unforeseen difficulties. That more than 50 million cubic yards of earth would have to be excavated and 2 million cubic yards of concrete poured was known in advance to more than fifty firms which held major contracts for the Canadian sections alone. But some problems that were not foreseen caused engineering difficulties after construction began. At the Beauharnois lock, contractors met hard underlying sandstone which held up all progress until a new drill had been devised to complete boring. Ice jams, high winds and flood waters hampered construction of cofferdams at the Montreal entrance and at the Cornwall power project, while dredging was complicated by unexpected physical obstacles.

Considerable expense was also incurred in relocating more than 6,500 people as well as towns, railways and roads on the north shore of the St. Lawrence between Cornwall and Prescott which was scheduled for flooding on completion of the Cornwall and Iroquois

THE BANK OF MONTREAL BUSINESS REVIEW is an analysis of Canadian business trends and a summary of information received by the Bank from its branches throughout Canada and from its offices in United Kingdom and United States. Published monthly at the Head Office in Montreal, the Business Review is freely available upon request.

"MY BANK" TO 2 MILLION CANADIANS

B of M

BANK OF MONTREAL

Canada's First Bank

working with Canadians in every walk of life since 1817

RESOURCES EXCEED $3,000,000,000 • MORE THAN 800 BRANCHES IN CANADA, UNITED STATES, GREAT BRITAIN AND CONTINENTAL EUROPE • BANKING CORRESPONDENTS THROUGHOUT THE WORLD

Ottawa Newsletter

PATRICK NICHOLSON

Canadian manufacturers have always had to fight, even for their domestic market, with one hand tied behind their back. With only 17,500,000 potential customers in Canada, even today they do not enjoy the scope to offer a choice of several varieties of each product, nor adequate margin to finance research and redesign.

In vivid contrast, the U.S. industrialist can absorb those costs in his sales to a domestic market of 175,000,000 consumers, and hence is able to challenge foreign manufacturers at competitive prices to obtain export sales which are gravy on top of his normal business. At the same time, U.S. workers enjoy the mass market benefit of low unit costs when they become consumers.

That huge industrialized "Common Market" of the 48 United States has long been unique, making its citizens the envy of the world for their unprecedentedly high average level of consumption. The key which opened the door to this prosperity was the tariff-free market comprised by the teeming millions of those 48 states. In marked contrast, manufacturers in other lands have been handicapped by the much smaller size of their potential market, and their employees deprived of the high wages and low prices facilitated by a mass domestic market.

A few visionaries have long proclaimed the advantages to be attained by larger groupings of human beings, and the disadvantages of retaining the concept of a narrow nationalism designed for the unmechanized, unscientific Europe of the Middle Ages.

Ten years ago, Canada sold this doctrine of wider cooperation to her allies, with the result that the North Atlantic Treaty, at Canada's insistence, included the famous Article Two, or "Canadian Clause", calling for allied cooperation in the economic, political and cultural fields, as well as in military defence.

Our then Foreign Minister, Lester Pearson, looked at the 372,000,000 population of the original 12 members of NATO (West Germany, Greece, and Turkey adhered to the treaty later), and asserted that although Article Two might seem far-fetched and idealistic, nothing less than such cooperation "would do in this jet-propelled atomic age", and that that clause might lead to the creation of "an economic and ultimately a political commonwealth of the western world".

After those brave words came immediate and continuing inaction.

Britain, confused by her obligations to sister commonwealth nations and to her colonies, would go no further than pay lip-service to the obligation in the treaty which she had solemnly ratified. Dulles saw to it that no official encouragement came from Washington. Pearson headed an international committee to study what might be achieved under Article Two, but publicly admitted that his committee were not "Three Wise Men", but "Three Blind Mice".

Then, suddenly, after a lapse of nearly 10 years, our European allies rose up against this North American and British inactivity. In their frustration, they gave full play to their common sense and need for self-preservation: they laid the foundations for a United States of Western Europe.

Even France found a formula to satisfy the needs and obligations of her far-flung overseas empire, and she joined that embryonic "Common Market" of six nations embracing a European population of 162,000,000. But Britain was less adaptable, and excluded herself—only to realize too late that she had blundered. She offered a free trade pact to Canada, but queered her pitch by offering no flexibility, no area of modification in her all-or-nothing proposal. Then she rapidly organized her own common market, including six lesser European nations which, with herself, now comprise a population of 88,000,000 in the "Outer Seven". An ultimate marriage between the "Common Market" and the "Outer Seven" is foreseen, with a total trading area of 250,000,000 consumers plus overseas dependencies with 90,000,000 inhabitants.

Now the bastions of economic and political nationalism appear ready to fall fast. The president of the British Board of Trade, Sir David Eccles, has urged "an Atlantic economic merger"; the French Premier, M. Michel Debré, asserts that "National sovereignty is an obsolete dogma"; the Big Six of Europe have created a new flag for their rapidly-developing union, even overriding the beloved French Tricolour; a former U.S. Secretary of Commerce, Will Clayton, publicly urges a common market for all the Atlantic allies, before an all-out trade war develops between the two European groupings; Liberal leader Lester Pearson urges Canada to join the European Free Trade Area.

Continued on Page 193

Washington Newsletter

JAMES M. MINIFIE

Foreign affairs dominate Washington this fall. The relations of the United States with other parts of the world are evolving rapidly and, on the whole, auspiciously.

Feeling between Canada and the United States improved in the past 12 months as irritants were removed, with consequent easing of tension. Important developments are taking place in the Organization of American States, that grouping of 21 American nations which still has an unoccupied chair for Canada. The August meeting of the O.A.S. foreign ministers in Santiago de Chile was only the fourth such gathering in 20 years. It was devoted to the problems of Caribbean unrest and dictatorships—both explosive topics. There is a new realization here of the importance of securing the affections and interest of the Latin Americans to the uncommitted world.

But all these are as nothing compared to the snake-and-rabbit fascination exercised by the visit of Premier Khrushchev to the United States and President Eisenhower's return visit to Russia, with the possibility of a summit meeting to cap all.

Vice-President Nixon's trip opened the way. It had vast surprises for the four-score-odd reporters who went along. They had conceived of Siberia as easterners had thought of the Great American Desert 100 years ago. One or two of them who knew, or had heard of, the Peace River country, did not feel too strange in Novosibirsk. But for most of them, Siberia was a tremendous surprise in the revelation of its vastness, its wealth of natural resources, and the enormous potential waiting to be developed.

The contrasts were equally striking. How could the Russians be so sophisticated in rocketry and so inept with telephones? A call to London promised for 11 o'clock might come in anywhere up to 2 o'clock—or not at all. Why was the line from Novosibirsk so much better than from Moscow? How could the Russian people be so friendly and welcoming, so out-going, and Soviet officials so suspicious, obstructive and exasperating?

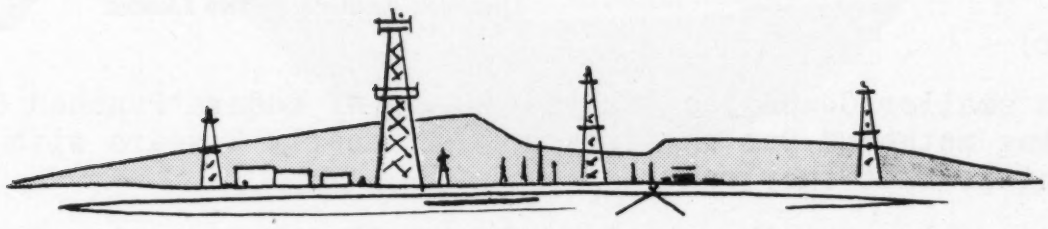
All these questions, to which wholly satisfactory answers could not be found in the brief two weeks of the Nixon visit, were gone over by word of mouth and in print by puzzled correspondents, who spread through the land their own wonderment and curiosity. It whetted the appetite for Premier Khrushchev's visit, and even more for the return expedition of President Eisenhower to Russia.

Those with a taste for the ironies of history are meditating on the collapse of John Foster Dulles's Iron Curtain policy before the turf has grown over his Arlington grave. President Eisenhower had hailed him as "the wisest man I have ever known". But within six weeks of his death, the President had initiated a totally different policy, and was calling back to the State Department the country's top Russian expert, Ambassador Charles (Chip) Bohlen, whom Mr. Dulles had exiled to the Philippines. The President is sensitive to suggestions that the New Look would have been anathema to Mr. Dulles. He insists that Mr. Dulles had himself talked along these lines in intimate conversations with the President.

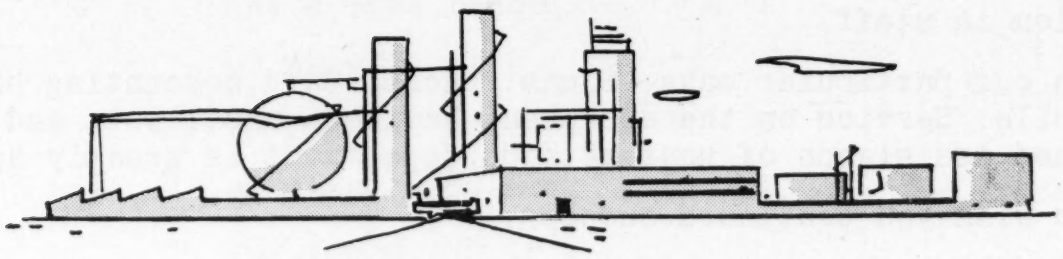
But the fact remains that it was the President, not Mr. Dulles, who sought to break the long stalemate which set in while Mr. Dulles was dominating every detail of foreign policy, as he did since 1953. The fact also remains that the Western Allies will trust Mr. Eisenhower to pursue intimate conversations with Premier Khrushchev as they—with the possible exception of Dr. Adenauer—would never have trusted Mr. Dulles. In fact, the famous Eisenhower luck appears to have freed him from the domineering egocentricity of Mr. Dulles just at the time when a personal initiative has the best chance of success. Certainly the President is now ostentatiously asserting his initiative, relegating foreign ministers to "the lower levels" and busy with a schedule of conferences and visits which Mr. Dulles himself could not have improved on, but could hardly be imagined entrusting to anyone but himself.

All-Canadian all the way

from oil fields



to refinery



to you!

WHITE ROSE

CANADIAN OIL COMPANIES, LIMITED

Straightforward letter from a small company on Underwood SAMAS Punched Card Accounting

Mr. H. A. MacDonald
Vice-President
Dominion Reader's Service Limited

Dear Sir,

Can smaller Companies take advantage of modern Punched Card accounting methods? Our experience after nearly 2 years with Samas equipment is that they can.

Our problem was the posting of installment payments received from some 35,000 customers, and the preparation of reminder notices where these were indicated. With the elimination of hand posting to ledger cards, and with the adoption of quick sorting methods, and with the use of the mechanical tabulator for the preparation of statements, our collection losses have been reduced substantially. We are now on top of our problem with a reduced work load and a reduction in staff.

In our particular case, Samas Punched Card accounting has proven worthwhile. Service on the equipment has been excellent, and the continued assistance of your methods department is greatly appreciated.

We wish you continued success.

Yours very truly,

H. A. MacDonald.

Vice-President

WILL SAMAS SAVE MONEY FOR YOU?

It costs you *nothing* to find out. Take advantage of this valuable Business Operations Study. At no obligation to you:

1. Underwood's Punched Card Specialists study your business operations.
2. Back at Underwood's SAMAS Methods Division the need is determined.
3. *Only then*, is a proposal made, designed to dovetail into your particular requirements. Costs, machines, personnel procedures, and *expected results* are submitted to you. You will then be able to judge for yourself the advantages offered by the Underwood SAMAS Punched Card System, and come to an accurate decision.

Ask your secretary to mail this coupon:

I am interested in knowing more about the Underwood SAMAS Punched Card System.

NAME .....

TITLE .....

ADDRESS .....

.....

SAMAS PUNCHED CARD DIVISION

underwood
LIMITED

Head Office: 135 Victoria Street, Toronto 1, Ontario.

UNDERWOOD SAMAS

Range

The Canada Life
has a wide range
of plans
to suit the needs
of every individual.
For sound advice
on your program
for future security,
consult a
Canada Life representative.
Then you will know
your insurance planning
is designed
to fit
your personal situation.

The CANADA LIFE
Assurance Company
ESTABLISHED 1847

Molecular model of ethylene oxide—one of the basic building blocks in Union Carbide's chemistry.

Helping to shape the future

Ever wonder what's behind the steady stream of new and better products we enjoy today? The answer is research and development by men and women who have driving curiosity and bold imagination.

The constant search for improvement has led to many new developments in the laboratories of Union Carbide Canada Limited. Never satisfied with things as they are, Union Carbide scientists take apart the raw materials of nature to capture the basic "building blocks" of the universe. Then they rearrange and combine the pieces into new and better products that help improve our standard of living.

Research and development are essential to the successful shaping of our future. Many wonderful developments await discovery by the imaginative men and women at Union Carbide. That these discoveries will be made there is no doubt.

Union Carbide Canada Limited, Toronto 7, Canada, and Divisions: BAKELITE COMPANY—Plastics and Silicones; CARBIDE CHEMICALS COMPANY—Chemicals and Polyethylene; ELECTRO METALLURGICAL COMPANY—Ferroalloys, Electrodes and Carbon Products; HAYNES ALLOYS COMPANY—Heat, Corrosion and Wear-Resistant Alloys; LINDE COMPANY—Industrial Gases, Welding and Cutting Apparatus; NATIONAL CARBON COMPANY—Consumer Products; VISKING COMPANY—Food Casings and Plastic Film.

UNION CARBIDE
TRADE MARK

...a hand
in things to come

Foreign Influence and Canadian Unions

The charge is often made that Canadian unions are dominated by foreign organizations. How valid is this charge? What are the relationships between the Canadian union and the international? In the paper that follows, the leader of Canada's labour movement discusses these and related questions.

CLAUDE JODOIN

A study of the influence of international unions on the Canadian labour movement is really just one facet of the larger question of the influence of the United States upon Canada.

Like the answer to the broader question, one can only reply that influence from the U.S. in the sphere of labour has been profound and will be lasting.

The close proximity of Canada to the United States and our economic, social and cultural ties with that country have naturally led to considerable influence being exerted by the U.S. on many Canadian institutions. Indeed, in some spheres of endeavour, notably business, there is a substantial control, rather than influence, exercised from the United States.

While the term "international unions" today is applied exclusively to North American labour organizations with headquarters in the United States, the first "internationals" were British.

The Amalgamated Society of Engineers established its first local union in Canada in 1850. The Canadian locals of this organization voted to join the International Association of Machinists in 1920. Another British trade union, the Amalgamated Society of Carpenters and Joiners, formed locals in Canada in 1860 but these were absorbed into the United Brotherhood of Carpenters and Joiners in 1914. Some branches of the Carpenters seceded from the United Brotherhood in 1922 and for three years resumed their status with the British union, but in 1925 the British organization withdrew completely from Canada. (It is interesting to note that a number of British unions still charter local organizations in other Commonwealth countries.)

The first Canadian labour group to affiliate formally with a United States union were iron moulders. They joined the Iron Moulders' Union of America in 1859.

From this point forward much of the impetus for labour organization in Canada was provided by the international unions. The development of the railway systems across the North American continent brought in their wake the establishment of strong railway unions which, like the railways themselves, were not confined by national boundaries. Indeed, the whole pattern of economic development was in a north-south direction rather than the east-west direction of Canada's common border with the U.S.

This pattern of development made the "international" form of union organization from the United States almost mandatory. As the influence of the U.S. on Canada developed, and our trading, cultural and social ties with Britain weakened, there was a consequent weakening of the influence on and direct participation in the growing Canadian trade union movement by British labour organizations.

For the average working man who sought employment on either side of the open international boundary, a union card issued from Washington, Chicago or Boston was of far more use than one issued from London, England. As a result of the existence of strong and growing international unions, the establishment of purely Canadian unions was considerably inhibited.

Official figures on union membership in Canada go back just over half a century. Today, just under 1,000,000 Canadians are members of international unions. This represents a little more than 70% of all members of trade unions in Canada.

The earliest figures indicate that a far higher proportion of union members held international affiliations at the beginning of the century than is the case today. In 1911, for example, some 89.7% of all union members in Canada belonged to international unions compared with 70% in 1958. There have been, over the years, substantial fluctuations in the proportions of Canadian members of international and national unions. Such circumstances as the development of modern mass-production methods of the late 1930's and the growth of industrial production during the wartime and post-war years, organized, as they were, in large part by the "industrial" type international unions, contributed significantly to maintaining the high proportion of international union membership among Canadians.

Today the five biggest unions in Canada, with a combined membership of about 300,000, are all internationals. Of the 20 biggest unions, 16 are internationals. Only two national unions have more than 20,000 members, compared with 16 international unions which exceed this total. In only 23 of the 111 international unions operating in Canada is the Canadian membership more than 10% of the total.

A study of "Canada-United States Economic Relations", prepared for the Gordon Commission, notes, not surprisingly, that international unions "are the dominant force in Canadian organized labour" and that "with the exception of the CCCL (Catholic Syndicates of Quebec), national unions play a relatively minor role".

Faced with these statistics and observations there is ample latitude for those with legitimate or other reasons to raise their hands in horror at the alleged "domination" of Canadian labour from the United States.

The demand for Canadian union "autonomy" has produced some interesting situations. Early negotiations between the United Automobile Workers (an international union) saw a management representative of General Motors Corporation (an American corporation) telling the UAW negotiating committee that he would not bargain with the committee because a U.S. official of the union was advising the Canadian members. The U.S. official of the UAW was from Detroit, a bridge-length away from the Canadian headquarters of the union in Windsor, Ontario. We have also found managerial employees of Canadian subsidiaries of American corporations decrying the fact that they must bargain with Canadian members of international unions.

In the face of the statistical facts about international unions in Canada, however, it is well to study the actual practice of these labour organizations in Canada and also the practice of the central Canadian labour body, the Canadian Labour Congress.

The CLC is, as its Constitution declares, a completely "autonomous Canadian labour centre". It has friendly, fraternal relations with the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), but the CLC neither pays to nor receives financial support from the AFL-CIO, nor are CLC policies directed or controlled by the U.S. trade union centre. Indeed, George Meany, AFL-CIO president and fraternal delegate to the founding convention of the CLC, declared: "Let there be no misunderstanding as to the relationship between the AFL-CIO and the newly-formed Canadian Labour Congress. This organization that you are forming is a free, independent trade union centre for Canada, just as the AFL-CIO is a free independent trade union centre for the United States". The CLC officers had requested that the AFL-CIO stop all organizing activity in Canada and turn over to the new Canadian Congress the charters of all directly-chartered AFL-CIO federal labour unions, said Meany, and "both of those propositions were unanimously approved by every member of the (AFL-CIO Executive) Council."

In legislative matters, which are a major concern of the CLC, there are wide differences between the policies of the Canadian central labour body and those of the AFL-CIO. This is natural since, for instance, most labour law in Canada is under provincial jurisdiction, with the various labour acts unlike any U.S. act. Our unemployment insurance program is entirely different from that in the United States, as are most of our measures of social security.

The attitude of the Canadian labour movement to foreign affairs, as it is reflected by the CLC,

differs in many important respects from the foreign affairs policy of the AFL-CIO.

On political action there has been the traditional acceptance by the United States' labour movement of the advice of Samuel Gompers, first president of the former American Federation of Labor, of "rewarding your friends and punishing your enemies". This, in certain circumstances, is a realistic policy under the American political system. The Canadian labour movement, on the other hand, operating within a country which is a parliamentary democracy, has a history of direct political action. Today, the CLC is actively promoting the "creation of an effective, alternative political force based on the needs of the workers, farmers and similar groups", as instructed by the 1958 Congress convention.

Among the other areas of policy difference between the Canadian and U.S. central labour bodies must be included such questions as trade and tariffs, housing and public ownership.

Decisions on affiliation or expulsion of certain unions by the central labour bodies is a significant indication of this autonomy. The International Longshoremen's Association and the International Brotherhood of Teamsters, for example, are affiliated with the CLC although they were expelled from the U.S. central labour body for contraventions of principles and policy. Conversely, the International Union of Operating Engineers and the American Federation of Technical Engineers were expelled from the CLC in April, 1958 for breaches of the CLC constitution, although they are still affiliates of the AFL-CIO in the United States.

It might be argued that while there is autonomy so far as the national labour centres are concerned, such autonomy does not extend to the Canadian locals of international unions. The answer is, however, that for all practical purposes, and with few exceptions, such autonomy does exist. The Canadian districts and Canadian locals of international unions are almost invariably led and staffed by Canadians. Technical advice, such as in the fields of bargaining, law, public relations and education, is given by Canadians. The difference in conditions between Canada and the United States in such matters would make direction from the 'international' of little use to Canadian union members.

The use of the strike, the most powerful weapon in the union arsenal, is a matter entirely at the discretion of the local concerned. It is true that most union constitutions require approval by the executive of strikes in which some demands on union strike benefits are made, but this provision applies equally to U.S. and Canadian locals of the union. This, however, is a means of ensuring responsibility in the use of the strike weapon rather than an attempt to curb the autonomy of a particular local. The Gordon Commission report noted: "Canadian autonomy is particularly strong in the key areas of collective bargaining including the use of the strike weapon."

The controversial question of "trusteeship" in cases of local misdemeanour again is a procedure which may be applied to unions on whichever side of the border they happen to be located.

Suggestions are heard frequently that the dues paid by Canadian workers are sent to fatten the treasuries of some international union in Washington, Pittsburgh, Detroit or Cleveland. This is just not so. With few exceptions, union per capita payments (usually only about one-third of the monthly dues) are deposited in Canadian banks to pay for organizing, research and education staff, the maintenance of Canadian offices, and strike pay. Most of these dues payments are in the region of $2 to $3.50 a month, according to the study on "Canada-U.S. Economic Relations".

Large sums, far in excess of Canadian members' payments, are frequently sent to Canada by the international unions for such expenditures as strike benefits. The Canadian members of the United Auto Workers, for instance, paid some $3,000,000 into the international strike fund between 1954 and 1958, and received in return more than $8,000,000 in strike benefits during that same period. Similar examples may be found in the experiences of most international unions.

An objective summary on the question of bargaining relationships of the Canadian locals with their "internationals" is provided by the Gordon Commission. The Commission's report notes:

"In general it is the Canadian local, not international headquarters, which determines the scope and content of union requests with respect to wages, hours of work, fringe benefits and the other objectives sought through collective bargaining. Moreover, international headquarters rarely exercises its power of approval in such a way as to require changes in the contracts negotiated by the Canadian locals . . .

"Headquarters officials sometimes participate directly in Canadian negotiations; but to the extent that they do, this is normally at the invitation of the Canadian local, in an advisory and technical capacity, within the frame-work of requests established by the local and with an observable bias toward moderation and restraint . . . The pervasiveness of American influence is pointed up by the

fact that not only the Canadian locals of international unions, but purely Canadian unions as well, display behaviour patterns in collective bargaining quite similar to those in the United States.

"There are, of course, exceptions to this general pattern of collective bargaining. In a number of cases it is well known that American control over the conduct of negotiations is virtually complete. These cases are frequently cited in discussions of the foreign influence of international unions. It would be grossly misleading, however, if such exceptional cases were allowed to obscure the basic fact of extensive local autonomy in the field of collective bargaining."

There is abundant evidence to demonstrate the substantial and broad measure of autonomy enjoyed by the Canadian sections of international unions. Many Canadian unions have, of their own free will, through the years, become part of an international union. The strength of these "internationals" has its roots in historical development of Canadian labour. In part it has been a development needed to meet and bargain with international business within the same organizational framework. Finally, the whole question of the influence of American institutions upon those of Canada has been a major factor in the influence of international unions on the Canadian labour movement.

One point that some of the exceedingly vocal critics of international unions might well contemplate is the startling growth of influence and control being exerted from the United States upon our commerce and industry at a time when the control of Canadian labour from the U.S. is virtually nonexistent and influence in matters of policy and organization is dwindling rapidly.

ADVERTISING AND MOTIVATION

The undiscriminating critics of advertising are those who fear that it can make people buy things they do not want—even, though those who use words differently may find it difficult to follow them, that it can make people want things they do not want. Those who are most contemptuous of advertising are invariably those who most exaggerate its potency.

This was well illustrated by the hullabaloo over motivation research. A single sensational book, *The Hidden Persuaders,* by Vance Packard[1] suggested without evidence that motivation research would give advertisers almost magical powers.

Motivation research is an integral part of marketing research, providing information about consumers' attitudes to products and hence enabling advertisers to improve both their products and their advertising of them. That consumers have motives they will not admit or are unaware of is not something advertisers have only just thought of. Did the critics really believe, before the advent of motivation research, that people's sole interest in cars was to get them from place to place?

Motivation research is useful because it provides rather more precise information about unadmitted and unknown motives than is afforded by everyday observation, introspection and common sense. But however searching, however precise, motivation research may become—and a lot of scope for progress is still left to it—it will cause no revolution. The success of advertising will be determined, as it always has been, on the one hand by the effectiveness of the product and on the other by skill of copywriters and artists in appealing to consumers' motives, both conscious and unconscious.

—*The Manager,*
Journal of the British Institute of Management.

[1]Packard, Vance (1957) *The Hidden Persuaders,* London: Longmans.

The Role of a
SECONDARY MORTGAGE MARKET

In this article, the author considers the pros and cons of establishing a secondary mortgage market in Canada. His purpose has been to clarify the issues and present all points of view, not to argue any single position. The views expressed are his own, and do not necessarily represent those of the Bank of Montreal, with whom he is employed.

SIDNEY A. SHEPHERD

A great deal of publicity has recently been given to the need for a "secondary market for mortgages". The purpose of such a market would be to establish a new source of money for the financing of housing, especially new construction, either as an additional boost to this sector of the economy or at least to maintain the flow of funds against a feared drying-up through present channels. Apparent inadequacy of money supply for future housing requirements is the spectre which is casting its shadow and driving those directly affected to action.

There is nothing new in this trend of thought. Consideration has been given to the subject certainly since as far back as 1954, and no claim is made that the idea was original even then. The heavy drain on chartered bank funds for mortgage loans which soon developed after the chartered banks were propelled into mortgage lending in 1954 in an attempt to find new and more widely-distributable funds for housing made it obvious that this source could not be a limitless one at that rate of run-off. Indeed, it must have been obvious from the very first, even to the originators of the plan, that it could be a temporary solution only, but the problem of what the next step would be was pushed aside by the pressure of immediate exigencies. Nevertheless, the possibility of developing an outlet for some of the mortgage loans accumulated by the banks, and so keeping them continuously re-supplied with funds for new loans, was not neglected. The current discussion has attained importance, and in some minds urgency, because the problem of an even flow of funds for mortgage lending—and in light of estimated housing requirements for the next 20 years, an *increasing* flow—is felt to be more and more demanding of solution. The special action of government authorities in 1957 and 1958 in supplementing money supplies for housing loans (even if in the period from end of 1957 to early 1958 and again at end of 1958 such action may have been premised more on a policy of aid to employment than an imperative need for housing) has thrust into the foreground the question concerning the continuing reliability of present private, including institutional, sources of mortgage funds. The fact that this Government initiative brought about a record year in 1958 for starts and completions—and, it could be claimed, a substantial addition to inflationary pressures — has not weakened efforts to examine and analyze the possibility of establishing a new pipeline from the reservoir of savings for the benefit of housing construction.

That nothing concrete has yet come out of earlier probings for a "secondary mortgage market"[1] indicates that there are practical difficulties to be overcome. The main purpose of this article is to discuss objectively the nature of these difficulties and the benefits, whether actual or theoretical, which it is thought would be derived from a better-organized "mortgage market".

MEANING OF MORTGAGE MARKET

What is meant by a "mortgage market"? As evidently visualized by its proponents, it means a

[1]The development of *direct* sales of loans by primary lenders to such permanent investors as pension funds is set aside for separate comment later.

method of, and the machinery for, the selling of loans by the originating lender or mortgagee to permanent investors who are not themselves able to set up the loans. Generally speaking, the "servicing" or "administration" of the loans, i.e. collecting the payments and attending to all the details of caring for them, would remain with the original lender at a fee. The sales might be direct to the permanent investor, or indirect through an institution which would hold the mortgage loans as an asset and sell cleaner pieces of paper to the permanent investor. The term "permanent investor" is used here despite the thought that the scope of the market might be such as to permit resale of the mortgages or paper by the "permanent investor" if desired; in other words, there could be a multi-directional movement. Not included at this stage, or for the present purpose, is the type of facility which some propose of a temporary reservoir into which mortgages surplus to investors' needs could be put and from which they could be drawn whenever demand exceeded supply. This would be a refinement in the mortgage investment structure which might be developed at a later date—disregarding the existing provisions for borrowing from Central Mortgage and Housing Corporation against National Housing Act insured mortgage loans and the buying and selling powers of that organization, and also the facilities for borrowing on mortgages from the Bank of Canada.

DIRECT SALES OF MORTGAGE LOANS

It would, perhaps, be well to discuss first the secondary market of the direct sale kind already existing in Canada. There are, of course, the activities of trust companies, real estate firms and solicitors who as trustees or "correspondents" originate mortgage loans with trust funds and against principals' advance commitments, but these are more strictly primary and not secondary operations. However, particularly in mind is the type of deal in which an originating lender sells mature, fully-advanced mortgage loans out of portfolio to investors like pension funds in substantial amounts at one time. A market of worthwhile proportions has been developed in Canada along these lines during the past four years for N.H.A.-insured mortgage loans. Sales to the end of 1958 totalled $179 million, of which $124 million originated with the chartered banks and $55 million with other approved lenders.[2] The buyers were mainly corporate pension funds, who took over $111 million. Very few have gone to individuals. Undoubtedly there is wide scope for further such operation in future, as the pension funds especially have great pools of savings—not, let it be emphasized, "lying idle", a term wrongly applied to the savings deposits in chartered banks when the latter were being brought into mortgage lending for the first time in 1954. The chartered banks did not then, and neither do the pension funds now, have large savings resources "lying idle". Their resources were and are employed in one way or another, but more will be said on this point later in order to clear away certain fallacies which appear to befog thought when suggestions are being made for maintaining or augmenting the supply of mortgage funds.

A wider and expanding outlet for mortgage loans among pension funds will develop as time goes on, although, for reasons of the changing competitive status of mortgage interest rates in comparison with yields on other available long-term investments, there is more business to be done at some times than at others. Another obstacle is the reluctance of many pension fund trustees to take on what is to them a new type of investment, about which many of them know little and which does involve a degree of additional bookkeeping. On the latter point, the system of "block accounting" used by some originators and servicers dispenses with the need for the permanent investor to keep detailed records of each mortgage. However, some of the problems of mortgage loans as an investment, whether of real consequence or not, are common to both direct and indirect sales to investors and will be examined in due course. It should be mentioned that even in the United States, with its well-developed mortgage banking business, the tapping of pension trusts as sources of mortgage funds has not been easy, and major advances in this field have come slowly and with difficulty; in addition to the points mentioned in connection with sales to pension funds in Canada, some of their state laws restrict efforts to develop this business.

NEED FOR A NEW INSTRUMENT

But the nub of the current discussion is not the direct sale of mortgage loans in large blocks to pension funds and the like, but ways and means of obtaining mortgage funds from the savings of individuals, which in general would be in numerous, comparatively small, separate amounts. Sale of single mortgages on one-family housing, or even of several mortgages, to one investor is not an economic transaction, as the charge which would have to be made for servicing for such small amounts would reduce the net interest yield to the investor to a level noncompetitive with other investments. Further, a mortgage loan, with its bundle of documents, is not an instrument which can readily be dealt with, or pass easily from hand to hand; assignments of mortgages cost money and take time, for one thing. To quote

[2]Life insurance, loan and trust companies.

from a United States publication in a reference to the mortgage market there: "As an instrument, the mortgage is not competitive in the money market. It is a cumbersome device; it comes in odd amounts, it requires bothersome bookkeeping, it demands legal fees and recording." What is sought is establishment of a corporation or other institution which would buy mortgage loans from originators in blocks and "convert" them from the bundle of documents representing each loan into readily and easily-handled "clean" instruments graduated up from reasonably small amounts. These new instruments could take the form of a debenture, collateral trust bond or participation certificate, secured by the offsetting mortgage loans as a whole.

PROBLEMS OF A MORTGAGE MARKETING INSTITUTION

What are some of the problems facing the establishment and operation of such an institution? The issue of whether it should be sponsored privately or by the Government, or whether the latter should participate in it, will not be debated here. It would of necessity have to be well-sponsored, with responsible executives.

a. *Yield*

One may start with the basic consideration confronting all mortgage loan borrowers and lenders, the questions of competitive yield in income and of capital appreciation. In the first place, of course, a mortgage has a fixed interest rate and no possibility of appreciation in dollar value. In this respect it is comparable to a straight bond, having no value as a hedge against inflation. As to income, the spread between the mortgage interest rate and interest rates on other forms of investment would have to be wide enough to be attractive after deduction of costs of servicing—the charge made by the servicer for collecting and remitting the periodic payments (usually monthly), collecting funds for and paying the municipal taxes, supervising the hazard insurance, recording sales of the property, taking legal action where necessary, and all the many details which must be followed to protect for the owner of the mortgage the mortgage account and the mortgage security. This charge, both in Canada and the United States, is fairly standard at ½% per annum on the reducing principal amount for single-family dwellings. In addition, the originator is entitled to a charge for the work in setting up a loan; 1% should be regarded as a minimum, equivalent to 1/10% per annum out of the interest rate over a 25-year term (.15% if the average life of a mortgage should in practice turn out to be 15 years). It is virtually useless to try to sell, for example, N.H.A.-insured loans to a pension fund at time of writing, with the maximum N.H.A. interest rate at 6% p.a., and the yield on good bonds ranging up to, and over, 5½%. Where a third party, such as an institution of the kind under discussion, intervenes in the marketing process, another set of overhead and selling expenses (even if the institution is non-profit-making) must come from the yield, thus aggravating the difficulty.

b. *Mortgage Interest Rate*

With regard to the maximum N.H.A. interest rate, there is, of course, provision in the statute for adjustment. At time of fixing (which is done by Order-in-Council), the rate must not exceed 2¼% over the yield on long-term Canada bonds, the definition of the latter for the purpose being given in the National Housing Act. At the moment, this formula would justify a rate of over 6½%. Whether or not the rate will be changed is impossible to forecast, but no doubt the extent to which funds for N.H.A. loans do or do not come out will have an important bearing on any decision in this respect. In event of an increase in the rate, special provision would be necessary to enable the chartered banks to adopt the new rate, as they are restricted under the Bank Act to a maximum of 6% for any kind of loan. A slight change in the National Housing Act, overriding the Bank Act restriction, could cover the point, although the desirability of proceeding in that way is open to question.

c. *Overhead*

What the overhead costs would be in operating a secondary mortgage market institution is difficult to say, but it is sufficient to acknowledge that there would inevitably be some costs, and therefore a drain on the gross yield additional to the originator's servicing and setting-up charges.

d. *Special Concessions*

It has been suggested that tax concessions might be obtained from the Government for this kind of institution, particularly if it were to operate as a non-profit concern. One might agree that assistance of this nature could be justified. However, a further development along the same road to the effect that income tax on the interest paid out on the debentures or certificates might be settled by the institution in bulk at a low rate, thus freeing the individual investor from income tax liability on an only slightly reduced net yield, has less to commend it. This is the principle used for United Kingdom building societies, and is tied up with questions and policies as to the degree of special encouragement which should be given to the attraction of savings into the housing sector of the economy. Some comment on this will follow later.

e. *N.H.A. Mortgage Loans as Base*

N.H.A.-insured mortgage loans, because of their general homogeneity, offer perhaps the best mortgage instrument on which to found a mortgage marketing institution. To the extent the mortgages might be on apartment blocks, an economy in the form of a possibly reduced percentage mortgage servicing charge would naturally permit the offering of a higher yield on the investment instrument, but against this the risk base would be less widely spread than if the mortgages were on single houses across the country. The broad-based and well-spread risk inherent in an instrument secured by mortgages on many widely-scattered properties is, in fact, an attribute of considerable value to a small purchaser. The possibility of applying easy block accounting methods is also important. On the other hand, the higher interest rates obtainable on "conventional" loans, and the lower ratio of loan to property value, are elements of attraction for the purpose, even without government loan insurance. No scheme of this kind should exclude the right to acquire these higher-yield mortgages, and for competitive yield reasons the door should be left open to such acquisitions.

N.H.A.-insured mortgage loans are not themselves, of course, fully guaranteed against loss. Until now, the principal (and permitted accrued interest) has been 98% insured, with interest collectible under the insurance for a year and a half after default, for the last year of that time at a reduced rate. But foreclosure action prerequisite to claim on C.M.H.C. can sometimes be long-drawn-out, and costs could be well in excess of the amount permitted to be included in the claim. Some improvement in these conditions, including 100% pay-off of principal and accrued interest (recently contained in amendments to the Act, but not made retroactive and therefore not productive of many fully-advanced loans in this category for about a year), would assist in attracting secondary investment money into mortgage lending, and simplify the problems of establishing and operating a mortgage converting and marketing institution. In fact, some investing institutions in Canada and elsewhere are limited by law to securities of or guaranteed by Government, and 98% insurance is not sufficient.

f. *Interest on Mortgages*

Another complication in this connection is that most mortgages, particularly on residential property, are generally repayable in equal monthly instalments of principal and interest, the split between principal and interest changing each month as the former is gradually paid off. Interest on debentures or certificates certainly could not, without incurring important additional overhead costs, be paid out each month; payment each six months would be the most practical and economic procedure. Yet the monthly mortgage payment feature is regarded as a strong element in present-day mortgage lending practice, not a weakness, and an institution taking in savings against such mortgages as security would have to face the internal problem of adaptation to this system. Under the Act quarterly, semi-annual or annual repayments on the mortgages are permitted, but would be appropriate only to large rental projects, and even then should be availed of reluctantly; if income is received monthly mortgage obligations should be paid monthly.

g. *Mortgage Principal Payments*

To point up another difficulty of a related kind, there is the question of what is to be done with the principal portions of the monthly payments. Should they be repaid to the individual investor at certain dates? The instruments might perhaps be set up on a serial basis or with a right to call. If an alternative procedure of reinvestment is followed, into what should the money be put? New mortgage loans? If so, what if the going rate for new loans has gone down? Then there is the right of mortgagors in N.H.A. loans to pay off 10% of the principal at the end of the first year, another 10% at the end of the second year, and to make full repayment after the end of the third year[3]—all with a bonus of three months' interest if the mortgage holder wishes to collect it, as undoubtedly the kind of institution in mind would do in the circumstances. How should these principal prepayments be dealt with? As with regular monthly payments of principal, they might be held to meet scheduled or early redemptions of debentures or certificates, but the hazard here is that when prepayments are most likely to occur (at times of current low interest rates when refinancing of mortgages would be attractive), holders of debentures or certificates are most likely to hold on for the high yield, unless a serial or call feature applies. Similarly, when current interest rates are high, prepayments on mortgages with relatively low rates are likely to be a smaller factor and redemptions of debentures or certificates at low yields (unless a penalty is exacted for early redemption) an increasing one. Thus, with these few examples, one may see that there would be a number of technical difficulties calling for skillful management of the institution and its obligations issued to the public. The financial margins available in this connection would, of necessity, be very fine.

h. *Financing of Institution*

This brings us to the question of the financing of the institution itself, i.e. its funds other than the

[3]In rental projects the right is limited to repayment in full after five years.

proceeds of sales of debentures or certificates to the public. A margin should rightly be provided by the originators of mortgage loans availing themselves of the facilities of the institution. Something in the region of 10% of the amount of mortgages sold should probably be left in it as a security junior to the paper issued to the public, although interest would be drawn on this portion at the mortgage rate less the seller's servicing charge. In addition to the margin in mortgages, there would be need for some operating funds to take care of such things as overhead expenses, time lags in collection of payments on mortgages, and delinquent payments. Delinquent payments, in fact, could prove to be a serious difficulty in meeting interest and other obligations under the debentures or certificates during times of economic downturn when mortgagors and home-owners have trouble in meeting their mortgage payments, or when moratoria on such debts might be invoked; some access to bank or other temporary credit by the institution would be most desirable.

i. *Routine*

Block accounting as between mortgage originator (servicer) and the proposed institution has already been mentioned briefly. An arrangement of this kind, reducing the bookkeeping of the institution to a minimum, would be almost imperative if the costs of the institution, and therefore the "bite" taken by it out of the mortgage yield, were to be kept low. This block accounting arrangement (sometimes referred to in the United States as the "single debit system") is in use successfully in Canada in direct sale transactions between originator and investor. There is no reason why it could not be used by the proposed institution. The less "red tape" the more likely the institution could function successfully.

j. *Title Insurance*

It has been said that investors, particularly those in the United States, would not be happy with this type of investment unless the mortgages securing it carried "title insurance". Title insurance, which is a relatively new importation into Canada from the United States, is regarded by some as an important component of a secondary mortgage market operation. It protects against loss of property and/or mortgage security through faulty title, as well as against financial costs in defending title rights. Inability to obtain title to a property in a foreclosure action on a N.H.A. loan would mean that a claim on C.M.H.C. under the mortgage loan insurance could not be made, as clear title and vacant possession (as applied to an owner-occupant) are a prerequisite to claim. One handicap of title insurance is that it does cost money, and is therefore another factor in costs. With respect to existing loans which are in ready form and could be sold at the outset to the type of institution being discussed, very few of them indeed are title-insured, and to obtain title insurance now would be more expensive than if taken out in the first place. Furthermore, the real need for, or economic value of, title insurance on residential property, other than multiple-family, in Canada has yet to be demonstrated, especially where the Torrens system of titles is operated. On large commercial and industrial properties and apartment blocks it may be a different question. Time and public demand will work out the answer.

NON-RESIDENT INVESTORS

Mention of the interest of United States investors now brings to the fore some special problems in this direction. There is a feeling that investors in that country would be attracted by the opportunity to purchase paper of an institution backed by Government-insured mortgage loans. Almost certainly this interest would be encouraged when completed loans with a 100% guarantee become available, as many pension trusts and life insurance companies there may invest only in fully-government-guaranteed obligations. It is hoped to attract especially the larger investors. The likelihood of drawing in any volume upon the savings of non-resident individuals in small amounts seems remote unless a high comparative yield could be offered. But the large investor could eliminate the "middleman" institution, and thus the costs subtracted from the yield, by buying direct from the original lender—assuming no special advantages, taxwise or other — were to be derived by going through the middleman. One of these special advantages, if it could be obtained from the Government, would be elimination of the 15% "withholding tax" applicable in Canada to non-residents receiving dividends or interest in this country.[4] This tax is, of course, under reciprocal agreement deductible by United States residents from income taxes in their own country, where eligible. But exemption from the 15% withholding tax, if to work in favour of investment in mortgage loans through an institution such as suggested, implies that a "special advantage" or bias of this kind towards the housing sector of the economy is justified, whether from need or merely by policy. In any event, such exemption should apply equally to direct purchasers of N.H.A. mortgage loans from the original approved lender as to indirect purchases through the medium of obligations, secured by mortgages, acquired from an intermediary. In other words, for the large United States investors

[4]With the exception of listed charitable or non-profit organizations.

who could take blocks of loans, there should be no need to impose the deduction from yield involved in a "conversion" through an intermediary for the sake of granting exemption from the withholding tax.

FOREIGN EXCHANGE RATE

Another impediment to investment in mortgage loans in Canada by non-residents, particularly residents of the United States, has been the exchange rate differential. The discount on the U.S. dollar in Canada which has now existed for many years clearly discourages investment in Canada when the obligation is expressed in terms of Canadian dollars. The United States investor has to pay a premium for the same nominal amount of Canadian dollars, and this reduces the yield when applied over the term of the obligation, even assuming only a change in the rate to par. All is well if repayment is made at, or at about, the same exchange rate, but there is no assurance whatever that the rate will remain stable at the original level. Changed circumstances and economic conditions could very quickly cause a shift in the exchange rate one way or the other, and it is just as likely, if not more so, to be a change adverse to the investor. A forward exchange contract to cover the risk would not be practicable. The intermediary institution could not itself afford to assume the exchange risk or any part of it, but whether a Government authority should give any assurance or protection in this respect is again a question of the extent to which funds are to be attracted into the housing side of the economy by special action.

ECONOMIC EFFECTS OF FOREIGN INVESTMENT

There is an aspect of foreign investment of funds in housing which should not be overlooked, and which might be mentioned briefly. This is the possible direct inflationary effect, or in the alternative the indirect disruptive and deflationary effect, on the country's economy generally. To over-simplify the situation, United States dollars coming to Canada, if in excess of demand for them for other purposes at the same rate, would first tend to increase the discount on U.S. dollars in the exchange market and then, if the Bank of Canada decided to step in and stabilize the rate, find their way into the hands of that institution, which would pay out equivalent Canadian funds, thus increasing the money supply. Primarily, and subject to whatever compensating action might be taken by the central bank, the result would be potentially inflationary. To take only a quick further look at what is a very complicated subject, if it could be seen that the money flow into Canada for investment in housing loans would result directly in the importation of supplies required for the housing construction which it would stimulate, then the interplay of economic effects of the capital (in the narrow sense of "money") importation into Canada would be simplified. But that direct result would not be likely to occur in this field in any substantial degree. In the disrupting alternative mentioned above, it is visualized that the Bank of Canada might allow the exchange rate to find its own level without support. The discount on United States funds would then increase, with a serious effect on exports and those sectors of the economy depending on or participating in exports. Imports would be encouraged by the lower exchange rate and would hurt producers of goods sold domestically and the people they employed (or had employed). In other words, there would be a distortion of the whole economy. The choice could only be between general inflation and general disruption, in greater or less degree.

It should not be taken from this that foreign investment should be discouraged. It has a most important place in a developing country where there is capacity for increased production with the available supplies of natural resources and labour, or where there is facility for the conversion of imported money into imports of real capital — goods and services. However, in the housing sector an undue influx of foreign funds might have indirect effects and pose problems which should not be brushed aside in any consideration of this subject. Suffice it here just to have lifted the curtain on them.

COMPETITION FOR SAVINGS

To return to the general subject of the institution for mobilization of savings for mortgage investment, but still in the field of economics, one should take a glance at the effects of opening up this additional pipeline. This would not be a pipeline such as those into Canada's newly-discovered reservoirs of oil and gas. The reservoir which this would tap is the reservoir of savings, from which there are already many pipelines. The reservoir of savings, in fact, is only a temporary reservoir for distribution purposes. Into it flow, by many entries, the savings of the people. Out of it there is a steady draw-off into channels of use and investment. A new pipeline drawing on it would reduce the pressure and flow through other exits. Unless the new pipeline had the effect of stimulating housing production in particular, and other parts of the economy indirectly, without harming those other parts of the economy by the reduced flow of investment directly into them, the result could only be a diversion of a share of the available national production from one sector of the economy to another, namely housing. While to say

to what extent such a diversion should be encouraged is beyond the scope of this article, it is nevertheless pertinent to ask where interference with the free functioning of economic forces of supply and demand is likely to stop. It is not without significance that important questions concerning the demand for special treatment for residential mortgage fund requirements have recently been raised in the United States by Mr. Miles L. Colean, writing in the *Quarterly Economic Report of Trends in the Mortgage Industry* (No. 1-59), issued by the Mortgage Bankers Association of America. The United States is one country which has not stinted in special provisions for housing, but still the cry arises for more.

COMPETITIVE EFFECT OF NEW INSTRUMENTS

It would be far from the writer's intent to suggest that all possible channels from the pool of savings should not be open to mortgage funds requirements of housing. It would be all to the good, and in concert with the principles of free enterprise, that they should be open, particularly if direct intervention of the Government in housing could thereby be reduced. What is advanced, however, is that there is serious question that any special privileges, such as pumps along the line, should assist in drawing from the pool of savings in one direction more than a free-flowing share of them.

An indication of the kind of complication which could be caused by special assistance or incentives can be seen in the weak state of the bond market at present. The high yield on Government bonds shows the desperation with which this type of investment is struggling in competition with others — not necessarily, or only, mortgages. But undoubtedly any further encouragement to diversion of funds away from the Government bond market — whether to equities by reason of fear of inflation, or to mortgages because of artificial attractions—would tend to aggravate the competitive upward pressure on the price (interest) offered for the use of investment funds. To illustrate the point further, the investments of pension funds contribute substantially to the total investment picture, and up to the present time rather heavily to the bond sector of it. Diversion of more of their funds into mortgage loans would obviously affect the bond market by reducing the demand for bonds and thus weaken the competitive position of bonds in their fight for an equitable share of savings. Therefore it would be a most potent and pertinent question to ask: "To what extent would new instruments based on mortgage loans compete for funds which would otherwise go into bonds (or for that matter which would go into mortgage loans through other savings channels), and what would be the repercussions?"

Another related question might run: "Would the new instruments result in withdrawals from the savings accounts of the chartered banks, and if so would the chartered banks be able to continue making new mortgage loans for their own account or even a normal volume of commercial and personal loans?" It should be clear that no simple outcome free of extensive reactions can be expected from attempts to inject or attract a larger volume of funds into housing than freely operating market influences can justify. In fact, directly inflationary effects could arise, as exemplified by the siuation in the Toronto area, where it has been said that fluctuations in land prices have followed changes in the supply of mortgage funds, and where last year the demand for a certain type of skilled labour at one time exceeded supply and caused a 25% increase in the cost of getting the work done. The press recently carried another example of the same kind in reporting that an increase in the price of plywood, with pressure of demand in excess of even greatly augmented production, would have the effect of adding to construction costs.

INSTRUMENTS ALREADY AVAILABLE

A factor not to be overlooked in considering the possible appeal to the investing public of new instruments based on mortgages is that loan and trust companies in Canada already offer debentures and certificates of varying terms at relatively attractive rates of interest, the proceeds being invested in mortgage loans. These may not, theoretically, be regarded as quite so safe as instruments fully secured by Government-insured mortgages, but the fact is that a sound, high-yield, savings instrument with a mortgage background is and has been available. The writer has no knowledge as to whether this type of instrument is as popular as its issuers would like, but it may perhaps be deduced that a new instrument based on N.H.A. mortgage loans would indeed need some kind of tax concessions to enable it to develop the volume (and so to draw away savings from other users) necessary for it to be really effective in its purpose.

OBJECTIVES OF A SECONDARY MORTGAGE MARKET

The objectives it is hoped to attain by a more highly-developed secondary market for mortgages or, as it has been pictured herein, another pipeline from the pool of savings for use in financing of housing construction, are not to be derided. One can sympathize with the desire for a ready market for mortgage loans at all times, and for a "surge-free" supply of mortgage money. There are, indeed, important social aspects of housing which understandably attract special attention to the subject by the Government.

Nevertheless, in whatever action is taken it must not be overlooked that there is no substantial untapped supply of (money) savings in Canada; that facilities for the mobilization of such savings are rather completely developed (and in a highly competitive way); that savings are already fully employed in one manner or another (unless there is a large amount of cash tucked away in corners which could be used for credit expansion); that diversion from present uses might seriously damage sectors of the economy from which diverted and so indirectly the whole social structure; and that special favours to housing should be considered with care. If it is decided, however, that housing does not have free and ready access to this country's savings pool and to investment from other countries, then it is perfectly within reason to make whatever equitable provision may be necessary to that end.

CANADIAN AND BRITISH TAX POLICIES

Our (U.S.) ruthless taxation of income offers a poor model for other nations, wanting progress, to follow. The resurgence of the new industrial Germany dates from the adoption of free market principles and the discard of a suffocating income tax progression that had been imposed as a result of American advice.

It was Great Britain that set the general model of steep progression which we adopted during the Great Depression and World War II. Other English-speaking nations for years now have been moving away from tax policies directed at destroying initiative and wealth accumulation. Australia was first to break the bonds of socialism and reform its income tax progression. In 1952 Canada began a gradual, year-by-year reform. In 1953 Great Britain itself, which had achieved the dubious honor of being the most heavily taxed country in the world, began to ease back its oppressive tax rate schedules. In the United States reform has been urged for years by members of both parties, as in the imaginative Sadlak-Herlong and Herlong-Baker bills which would spread out gradual income tax rate easement five years ahead. But nothing gets done because of political inertia and insistence that tax reductions be designed to stimulate consumption rather than enterprise and economic growth.

The latest tax moves abroad came in April when the Canadian Government increased taxes by $352 million, while the United Kingdom gave its taxpayers $1 billion relief, the biggest immediate tax cut they have ever had. Although opposite in direction, there is a good deal we can learn from both these actions.

The main lesson of the Canadian experience for us is that the series of foresighted tax reforms earlier in the postwar years provided a reserve of taxable capacity for emergencies. Even with the April increases Canadian personal income tax rates are far below wartime peaks. The new 84 per cent top rate for 1960 compares with a peak of 98 per cent during World War II. The 11 per cent rate on the first $1,000 of taxable income compares with 30 per cent on the first $500 of taxable income during 1943. A 2-point increase to 47 per cent in the corporate tax rate cancels a 1955 reduction.

Great Britain is providing an example of how a tax reform policy can invigorate an economy. A continuous string of tax concessions—including three reductions in income tax rates beginning in 1953—has cut United Kingdom income tax rates to the lowest levels since 1939-40, produced a new spirit of optimism in the business community, and helped regenerate confidence in the pound sterling. The April reductions lowered the "standard" rate of British income tax—to which other rates are tied—from 42½ to 38¾ per cent. The lowest rate of income tax payable was reduced to 8¾ per cent, on the first $168 of taxable income, while the highest rate (including a 50 per cent surtax) was chiseled to 88¾ per cent, down almost 9 points from the 97½ per cent peak level which prevailed from 1942 to 1953. Income tax on corporations was reduced from 52½ to 48¾ per cent; shareholders continue to get credit at the "standard" rate on their own tax returns from income taxes paid by corporations on dividends.

The taxation to shareholders of corporate profits paid out in dividends is now lower in many cases in Great Britain than here. The taxation of retained profits is lighter and depreciation allowances are more realistic. The top personal income tax limit, while applying at a lower income level, has been brought below ours. Capital gains are tax-free.

Far from being depleted by the steady succession of tax cuts, the British Exchequer revenues have flourished. Britain's experience provides support for those in the United States who believe that a creative program of tax reliefs could pay its own way by freshening the flow of the revenues.

—First National City Bank
Monthly Letter.

Current Problems in
MANAGEMENT DEVELOPMENT

In this article, another in a series flowing from a continuing study of management development, the author presents his reflections on a number of the most important current issues in the field. As architect and operating head of one of the continent's first university-run management development courses, Professor Thompson's conclusions are based on many years of first-hand observation and experience.

WALTER A. THOMPSON

Dean Wallace B. Donham, in his talk to the entering class in the fall of 1928 at the Harvard Business School, contrasted the problems of management development of an older era with the situation in a more complicated industrial economy. In the earlier period, he said, it was possible for the bright young man to start as the office boy and learn management by observation, at close hand, of the big boss's technique. In that period, the opportunity for learning was often pretty close to ideal. The problems of management were less severe and the result was a reasonably good product in terms of the quality of management men.

The contrasting trends that were showing in 1928 are becoming more and more clear. Today, young men of high potential are entering increasingly large businesses as relative strangers. It is increasingly necessary for the corporation to look to its methods of sifting, pruning, and development of management material. This transition from an almost complete absence of formal management development to something resembling a planned approach today has been accompanied by some pretty severe growing pains. In a previous article[1] of this series, reference was made to the enhanced interest in industry in the formal management development programs. The concern of this article is primarily with outlining the approaches that have been made to management development, the efforts that have been made to evaluate formal management development programs, and some general observations regarding the administrative aspects of management development.

[1]"Objectives for Management Training", *Business Quarterly,* Volume XXII, No. 4, Winter, 1958.

APPROACHES TO MANAGEMENT DEVELOPMENT

The first real flush of management development programs brought a vast variety of approaches. Just about every conceivable variation in training approach has been used. Some firms, such as the Aluminum Company of Canada and the Canadian National Railways, have used professional teachers from leading business schools. Other companies have used their own employees, with a minimum of help from professional instructors. Some, such as the Bell Telephone Company and General Electric, have put all men of a given management level through a program, while others have been more selective. The Nestlé Company puts its men through a 10-months program, while the Reuben H. Donnelly Corporation in Chicago sends its men to a 3½-day course.

All sorts of variations of classroom techniques—lecture, case, syndicate, incident, simulated situation—have found a place in the various programs. Some programs have been fragmentary in scope; others have been fully integrated. "Outside" courses, such as those offered at universities and trade associations, frequently appear as part of existing programs. Four companies in Minneapolis have recently joined forces and will be sponsoring a formal program for their management people.

Complicated and time-consuming executive performance appraisal procedures have been adopted in

varying degrees in conjunction with these courses. Some companies use this device in touching only on the lower management levels, while others go right up to the top. Earlier and most generally-used devices of this sort tended to make judgments regarding basic personality and ability traits. Douglas McGregor of M. I. T. and O. A. Ohmann of the Standard Oil Company of Ohio, have voiced some of management's misgivings regarding this method.[2] General Electric, The Standard Oil Company of Ohio and the Canadian National Railways are among firms making some real progress in the direction of better appraisal. An approach which involves a definition, usually with the subordinate, of what is to be done is receiving increasing approval. With this, the man is judged by how well he actually does what he is supposed to do, and not whether he is "aggressive", has a good "potential", a "high sense of urgency" etc. The variations in efforts of companies to raise the standards of executive performance is fantastically large.

EVALUATION OF RESULTS

A review of the results in any area that has received substantial attention is certainly healthy. Unfortunately, most attempts to tie down results of "formal" courses have been inconclusive. Professor Kenneth R. Andrews of the Harvard Business School is in the process of analyzing 6,000 returned questionnaires from graduates of university-sponsored management courses. The University of Western Ontario regularly checks back with each man several months after his departure from their management training course. At General Electric, superiors, subordinates and executives at the same level as the man experiencing the course are checked to spot changes in management skills.

Robert Greenleaf, who has played a key role in much of the A. T. & T. program, has said that the measuring of results has been difficult for them. He believes, though, that there is a strong feeling that, as a result of management development work, many more problems are being handled at lower levels of their organization than formerly. Furthermore, A. T. & T. has found that men who have responded well to training efforts are good people to be assigned to problems involving change.

The Canadian National Railways' Staff Course is currently subject to critical analysis within the company. William Bowra, general manager of the central region of the railway and a member of the railway's first staff course in 1953, indicated that the C. N. R. Staff Course has been a large influence in his approach to railway problems. He feels that he and others in the railway who have taken the course are more aggressive in working for constructive change.

John Gorsuch of the Employees' Services group of the U. S. Steel Corporation in Pittsburgh made an interesting statement bearing on the value of executive development work. Back in the 1920's, the American Wire Company (a subsidiary of U. S. Steel) did some work in formal executive development. An incredible number of senior managers of the corporation later came from that subsidiary. While overall results are still hard to measure, there is a growing conviction that this activity is paying off well. Many of the results may not be felt for years ahead.

One corporation president said that sometimes he thought that, by his management development efforts, he was "building up an effective group for his successor". One conclusion seems well warranted. The job of building an effective management group is a slow process. Certainly, it is becoming an intimate part of managing well.

"BIGNESS" AND MANAGEMENT DEVELOPMENT

The growing bigness of business has had a great effect on the handling of the management development problem. The employee of the large company is plagued by many barriers to the development of competence in management. The sheer force of numbers in the competition is likely to give him that "what's-the-use" feeling. Poor work and good work are too often given the same reward. Promotion to high positions can often look like a reward for being close to the seat of authority, just plain luck, having the right relatives, or simply accumulating time. Even at higher management levels the sights are too often firmly fixed at a small segment of the enterprise, rather than having any clear conception of the total management problem.

The stake of our large corporations in this problem is great. Many chief executives recognized quite early that lack of management men was to be the bottleneck of postwar expansion plans. This, coupled with the fast tempo of business growth (in a more static situation, "learning-the-job-ahead-of-you" may not be a bad approach to management development), has resulted in large expenditures to develop managers. One European company doing a world-wide business is reported to have spent some $50,000 just in planning their program. The budget of one U. S. corporation in a single learning centre is reputed to

[2] A major criticism is that it would take a trained psychologist to make many of the judgments. Also, the pattern of traits of successful executives varies greatly. One of North America's largest insurance companies now concludes that they have at least four distinct "types" functioning as very successful district managers. In any case, it is important that the job to be done is not forgotten.

be one million dollars a year. The investment in just one key executive's attendance at a university course for several weeks is substantial.

Interest in management development programs is probably highest in the U.S., where the whole problem is immeasurably intensified by the vast scale of businesses. *Business Week* reports that 60% of U. S. corporations participate in formal management development programs. It is significant in this connection that the responsibility for this activity is more and more being vested at the vice-presidential level.

There has been no general stampede in Canada to climb on the management development bandwagon. A senior management man recently explained his lack of sympathy for anything resembling a formal management development program. This man's formula was to get a bright young man with a high school diploma; the problem of the later development of this young man to senior ranks was simply one, in his opinion, of the young man learning the job ahead of him. The senior manager's justification for this policy was that "this is the way we have always done it, and we have had some good senior managers". Another senior manager summarized his opposition to formal training by saying that "the cream will always come to the top". A leading consultant has pointed out, however, that the extremely aggressive man who does a good job at lower levels may disqualify himself for senior management. Some men do good work at lower levels by hard work, "doing it all himself", self-centredness, and lack of consideration for other people. These attitudes and methods may result in doing a good job at lower levels, but may disqualify a man for a job at higher levels.

TOP MANAGEMENT PERFORMANCE

Any checking of management development programs should involve a close examination of performance of the senior management group. The attitude and behaviour of the most senior men is always important. The president of one well-managed Canadian corporation said that his first attempt to build a strong management from the bottom up had failed. His company had operated for a great number of years with a distinctly authoritarian type of leadership. The immediate group surrounding the president were all good men; the group in middle management were thought to be less effective. As a result, the senior group had spent much time going from one part of the company to another handling "crisis" problems. As one situation was taken care of, trouble broke out in another part of the firm. "Crisis management" was firmly in the saddle. The new president felt there was dangerously little depth to his management group, and decided to do something about it. His first step was to assemble a group of promising young college men. None of these lasted long in the atmosphere that existed in the lower levels of the company. After this experience, the president's later work to raise the level of management competence was directed at senior management people. From there he worked to lower levels. The company is still engaged in a careful program to raise the performance at all levels — including that of senior and middle management.

One of the most used and heard clichés is that the top man sets the pattern. It has been demonstrated many times that this cliché is unquestionably true. In companies where the president is really working hard on this problem of management development, many things fall into place. The first job in laying the ground work for a sound management development program is for the chief executive to work hard at the job of being a good manager.

The job of being a good chief executive is most complex; no one but the president himself knows the pressures and the feel of being at the centre of the corporation. What he does to fulfil his role when he reaches this spot is a decision he alone can make. The role of president asks for a man of many parts; unfortunately, the needed maturity is not always found in men in senior jobs. One observer has even suggested that the higher one goes in an organization, the more frequently one runs into actions seemingly controlled by childishness, vanity and emotions. These are strong words and may overstate the case, but one has an uncomfortable suspicion that there is more than a germ of truth in this observation. The chief executive makes the job of personnel development easier when he sees his own personal problem and does something about it. Most people reach high positions lacking in many ways; it is certainly not hard for most senior executives to find places for their own improvement.

Perhaps one of the biggest hurdles to overcome is simply vanity; too many people at all levels think they have arrived when they get the "rug on the floor and the title on the door". A businessman, noting the presence of a treasurer of a large and successful corporation among the class members at a recent University of Western Ontario Management Training Course, made a remark that illustrates this. He said, "what is Smith doing here? He is *already* a success". He made it clear by his remark that he didn't see any need for top management to work at their own development. Some companies reflect the same attitude when they start a series of courses involving a serious study of management which *exclude all the more senior group.* A. T. & T. and General Electric are notable

exceptions to this practice. Both companies have gone heavily into training programs involving top people. Reuben H. Donnelley has three different courses for different levels of management. The armed forces have also done a good job in this area. Too often, though, senior management people have regarded their title in much the same manner as some college graduates regard their diploma—as signalling the end of their education and the need to learn. This should not be the case. The objective and chief value of much of management development work should be to improve performance of men on their present jobs, and not just to train men for the level above them.

The age of a senior executive is often quoted as a reason for not training an older man. This does not appear to be a valid argument—there are some pretty competent findings pointing to the conclusion that the thinking apparatus stays sound in a lot of people for a long time. However, some still feel that the older executive is too set in his ways, and for this reason this class of man is usually passed over in development programs. On the other hand, this may well be the kind of man who really needs a strong assist. A "case"-centred development program does a good job breaking down such "single-solution" men. It helps immensely, too, in giving a man a real measure of himself, both in his problem-solving ability and his skill in being a constructive factor in "people" situations. The University of Western Ontario's experience in working with older executives (the proportion of over 50's in a typical Management Training class is always high) has been good. Many "older" people still have a good many years to go on very responsible jobs. Often too, there are the men who are being "looked to" by potentially-good younger men; poor work by these senior men can lose a company many of its good younger men. The Bell Telephone Company takes care of this by sending *everyone* at one level, regardless of age, to its annual week-long program at the Alpine Inn.

It is easy for a company to fall into a program that is incomplete and fragmentary. Many senior managers are pressed by interested people to "do something" in this area. There are quite a few outside the organization who come forward with package programs that they claim will do the job. There are men within most large organizations who are anxious to devote time to this problem. The president who turns the job completely over to someone else has usually been given a number of gentle and not-so-gentle pushes in that direction. Attractive as this course of action may seem on the surface, this is not a situation where complete delegation is wise. While specific programs of appraisals, training seminars and the like may well be delegated, the president had best look on these as only an assist in his most important job. In all such activities, results may be slow to show. Certainly, dramatic and immediate results have been conspicuous by their absence in most of the cases observed. Programs promising quick and dramatic results, or programs run by one man alone, should be looked at extra-carefully. Management development is a key function, if not *the* key function, of the top executive, and cannot therefore be readily delegated. The top man should always keep himself close to this problem, and be sure any program fits his company's needs.

PERFORMANCE APPRAISAL

An integral part of any management development program should answer the question: What kind of executives have we got, and how are they doing? Management inventories and performance appraisals have become standard apparatus in many large corporations' kit of tools. The ability to judge good men and their performance certainly varies. A baseball manager who overlooked as much talent as most businesses wouldn't be a major-leaguer very long. The gold medallist of Western's business class of 1934 applied for a clerical job and was turned down by an old-line company; the man who beat him out for the job was someone who happened to have walked in off the street and was "liked better" by the person doing the hiring. The gold medallist took on a job of selling washing machines from door to door, and is now vice-president of a large corporation. The present status of his rival for the job is not known; the firm involved went into receivership a number of years ago.

Judging other men is always serious business. We are playing with men's lives when we start lining them up in inventory sheets and putting ticks down on pieces of paper that get into files. The evaluation of work done and the charting of men's business careers is a deep personal trust and responsibility. It goes far beyond the responsibility for making a flow chart of the right kind of figures in financial statements. Evaluating people should be approached only with deep humility, and with more than the usual caution.

ATTRACTING POTENTIAL MANAGERS

The enrichment of the pool from which officer material must be drawn must be given continuing attention. Sound knowledge as to what the corporation has in the way of people and what sort of job they are doing is a basic starting-point. Shortly after the last war, a competent ex-associate threw up a good post to return to the U. S. Air Force. His reason for returning was "they really knew a lot about me

and they want me for the job"—his other reasons for returning were of little significance. An example of the opposite situation comes to mind: A good college graduate was lost by one of Canada's leading department stores when he was offered a job five minutes after the employment interview started.

A major reason for the ineffectiveness of large corporate systems generally is that too many co-workers are strangers to each other. We are getting some help in reducing this trouble — competent psychologists can be effectively employed when their judgments are used to help fill out a pattern. John Gorsuch of U. S. Steel has said that sound use of psychologists can put you ahead several years in getting to know a man. Measurement of the most significant factor—how badly the man *wants* to succeed —still eludes the testers. The author's experience in handling students has testified to the importance of this quality. One of our first-class honors graduates, a group that includes only the top 8% of our graduates, was in the bottom 7% taking a standard scholastic aptitude test.

The colleges are becoming a richer source of material to feed the officer potential pool. But we should not blind ourselves to the fact that a large percentage of good high school graduates still don't go on to college. Despite this, the colleges are the prime source of men of high management potential. Some companies have been outstanding in their utilization of this source of material; others have done a poor job. A subsequent article in this series will deal more fully with the handling of young men of high potential.

One of the most common statements heard in this regard is: "we have no crown prince", said with some measure of pride. There is good evidence that these companies are either deluding themselves, or are running the danger of having no princes at all. The way bright young people are handled can have much to do with the ease or difficulty the company has in attracting and holding men with good potential. One very large U.S. company, at least, is consciously taking this fact into consideration: their very best college recruits, during their first year of employment, are assigned to senior men who are working on problems involving high-level thinking on company problems. In addition to stimulating these young men, it is hoped that this will help demolish the myth often held by college seniors that this company is one where all the important problems are solved, and that there is not much challenge or opportunity within the company. It is so very easy to have such misconceptions kill a college recruiting campaign. The same large company is combing all new employees on a systematic basis. They have asked their supervisors to try to spot those they think will have the best chance for eventual vice-presidency of the company. This is being done throughout the firm, and those responsible expect to boil the number of young men down to a group of a dozen men. It is too early to get much of an idea as to how this is going to work out. There are, of course, some *very* obvious dangers. However, it is a far cry from a dozen years ago, when the same company was worrying about the implications of sending a promising executive to a university management training course.

PROMOTION AND RECOGNITION

A poor promotion policy is no help to any management development program. Examples are legion where men have high management potential and do good work for many years without proper recognition. Loyalty to the company often holds them to jobs where they are making a contribution much below their potential. Many resign and do well elsewhere. In their new setting they demonstrate their managerial potential by doing outstanding work. These men are often easily held by getting the promotions they deserve. This move renews faith of the rank and file in the basic competence of their companies. While top management may often overlook these people, their qualities are usually well known to the rank and file. It has been seriously suggested in this connection that subordinates and peers are the best judges of whether an employee has potential and deserves a crack at managerial responsibility. This is a stinging indictment of management's effectiveness, but it is true that too often senior management either is not aware of or ignores informal leadership patterns.

Men with really significant management potential must be used or they lose their skills. Most of us have seen this happen to people we have known best —the bright men who were in our circle of boyhood friends. Many in this group haven't delivered up to the promise we knew and know they had. The proper early treatment of men with high potential should rank very high in any serious management development program. Sometimes well-meant but ill-conceived formal programs are the biggest factors in losing the men the company is trying to attract and develop. Two programs come to mind immediately. In one case, the operating managers were so hostile to the scheme that everyone on the program resigned in six months. In another case, the dullness and great length of the program was such that a hand-picked group were all lost before the end of the course. Really good men seem to be anxious to get on with the job, and lose patience with situations that keep them in short pants unduly long. Robert Armstrong, new vice-president of Chrysler and formerly vice-

president of the C.N.R., has handled the problem of bringing in a new man in an interesting way. His technique involves assigning the man a useful problem. By the time the problem has been handled, the person has received considerable training in handling people, operations, routines, problems, and so on.

The people coming in contact with the high-potential man are most important. One of the most promising men turned out at our university since the war had considered taking a position with a particular firm, but dropped the idea after his first job interview because he "didn't want to be like the man sent to talk to me". Psychiatrists are more and more stressing the importance of first contacts in the development of people. The father who wants to have his son grow up to be a real man—in its best sense—should spend a lot of time with his young boy; his idea of what constitutes a man is being formed very early. So it should be in a corporation. One keen observer of the problems of management development in a company said that a certain man in a key position in his company was hurting their situation immeasurably, because he was "responsible for chasing many good men away from the company". On the other side of the coin, some people unquestionably have great skills in spotting and training good subordinates. Their methods should be the subject of more serious study than has been the case to date. Their skills should be recognized and used to better advantage.

A management development man remarked several years ago "we know how to do everything but how to handle the man with extra high potential". Another observer looking at a young man in this category said "his apples aren't very ripe". The observer felt that, with proper handling, there was a good chance of the bright young man's apples ripening. The fitting of these men into a pattern prevents problems. The disturbing effects of breaking the usual step in promotion are certainly well known. A president of one of our biggest companies has a competitor who hired one of his very best young men. This man had been passed over for a big promotion "because he was too young". The pattern of promotion in the company just would not accept a 30-year-old in a certain level. Under similar circumstances today the young man would have got the job. The disturbance to morale when a man is brought in from the outside is great. This is particularly true when there is an able young man within the company who might have filled the job. A most promising young advertising manager started to look for another job when his company filled what would have been a logical promotion for him by hiring an outsider. It took this young man a year and a half to get his new job. His departure at the later date was not associated with the earlier event in the mind of the president of the company he was leaving.

The role of the chief executive is a complex and shifting one. The complexity reflects the complexity of the needs of his organization as it responds to multiple pressures from without and within. Some enthusiasts believe that electronic devices are going to simplify the top manager's job enormously. A more astute observer, after listening to a dissertation on the wonders of the new electronic devices in business operation commented: "we will be getting some real help on some of our simpler problems". The really tough management problems will still be left to people. The leading role played by senior management in executive development will continue. The task of a top administrator in maintaining continuing effectiveness in his organization is certainly as difficut as that of a symphony orchestra conductor if he were expected to deliver a polished performance of a new symphony with only fragments of music set before him while the orchestra was still playing. One of the more thoughtful statements I have heard in the past years has been that the old-time truisms we grew up with are mostly true. We tend to accept many definitions without really thinking through their implications, and this is particularly true of definitions of an administrator. Most of us accept the concept that the administrator must get his work done through and with people. This job — getting the maximum contribution of able people toward the goals of the business—will continue to be complex. Kenneth Boulding recently commented on the fact that the top manager of really big business must function in a situation of extreme difficulty: useful and necessary information often doesn't get up to the top, particularly as a crisis appears; bad news is too often not sent up. This difficulty is accentuated, he says, by the disloyalty of the many disappointed men who can't get a promotion they want. Advances in status are often denied to a large number of able men in the largest organizations.

For these and other reasons, the executive must be a good man to measure up to the role that he is cast for in today's business setting. The products of our executive development programs are going to have to be good to get by.

The New Challenge of Industrial Relations

Mr. Clawson, a leading practitioner in the industrial relations field in Canada, makes some interesting and provocative comments regarding the problems of labour relations, human relations, and management development. The author is Vice President—Personnel for the Steel Company of Canada Limited.

H. J. CLAWSON

It is now almost 25 years since "industrial relations" began to be recognized as an identifiable management function. During nearly 20 of those years the preoccupation has been mainly with collective bargaining — the group relations aspect of that function. While the industrial relations practitioner, or the personnel man, as he was commonly called, did, in the beginning, make some faltering attempts to build a logical and rational system of personnel management, the modest progress in this field was soon interrupted before he even got "off the ground" so to speak, by the march of events—mainly the rise and growth of unionization in industry. With some notable exceptions, the development of a disciplined approach to the administration of the human resources of industry was sidetracked by the necessity of coping with the problems of employee relations on a group basis — through unions and the collective bargaining process.

I believe it is timely to review management's experience with collective bargaining in an effort to get a true perspective on what has been accomplished, what we have learned and where we are today. The more important point, however, is how intelligently we assess, and plan to meet the new challenges which loom in the future, not only in labour relations but especially in the broader field of personnel management and management development—the better integration of the human resources of industry.

Let us then examine some of the labour relations, or collective bargaining problems which have been of such great concern to industrial management in the past 20 years and especially in the past 10 years.

Most managements were thrown off balance by the impact of the militant and expanding industrial unionism of the forties. The management response to this new impact was only too often coloured by emotionalism and hostility. Instead of concentrating on the development of policies and techniques to deal with some of the fundamental problems, and which would have had a tendency to modify some of the less desirable attributes of unions, we dissipated our energies in futile efforts to resist collective bargaining as such. In other words, we in management were inclined to be more concerned with combating unions than with learning to negotiate successfully with them.

These attitudes, not unnaturally, caused us to adopt a defensive position at the bargaining table and, indeed, in our whole outlook on the subject of labour relations. Public opinion and the law, and an expanding economy with conditions of full employment, made it inevitable that unions were here to stay. Yet in the negotiation of our agreements in those days we had all too little foresight about the adverse effects upon efficient operations, as well as upon employee relations, which could result from decisions of expediency with respect to such matters as management functions, employment costs, seniority, and compulsory union membership and dues payments.

We did little to insist that collective bargaining be a two-way street. We did little to communicate with our employees and with the public concerning the merits of collective bargaining issues. If we did, we often did it ineptly and on the wrong issues, and usually our "viewings with alarm" were directed to the "faithful" rather than to neutral public opinion.

Too many of the positions which we took seemed, at least to outsiders, to be designed to eliminate unions rather than merely to contain them within reasonable limits in terms of power.

The law also gave organized labour undue rights and privileges, without imposing reciprocal duties and responsibilities. All of the labour relations laws provided for compulsory and exclusive recognition of unions and compulsory collective bargaining, a form of protectionism which, while probably justified under the circumstances, was bound to give rise to a new form of monopoly power — which was virtually unbridled except by the self-restraint of union leaders. Instead of insisting upon the sort of controls and acceptance of legal responsibilities for wrongs which all other institutional groups in our society are subject to, such laws, in fact, perpetuated and confirmed the unique legal immunities of unions. Many politicians developed an almost pathological, but wholly mistaken, fear that anything which happened to annoy the new bureaucracy of labour officialdom would automatically result in electoral defeat. Consequently, they thought it necessary to placate them, not only by opposing any form of restrictive legislation, no matter how reasonable, but even by failing to enforce existing laws.

In some respects their attitudes were justified. Employers did not, by any means, have an unblemished record in their approach to employee relations, either in the economic or in the human relations aspect. Unions on the other hand, purported to be, and in many cases were, the great friend of the common man—the "exploited" employee. Not only would his economic status be improved, but he would be protected against arbitrary treatment, and more important, he would obtain and have preserved his freedom of association. These doctrines were preached with an idealistic and evangelical fervour — a fervour which made an impression on the politicians and the general public which has lasted until the past few years, when it began to be perceived that unions also could have feet of clay, and that what someone has called "slot-machine unionism" is hardly consistent with the earlier high ideals.

One more point should be mentioned in this brief historical record of how we arrived at the point we are today in industrial relations. In our inexperience in the early days of collective bargaining, most of us in management concluded that the ordinary canons of good human relations were equally applicable in collective bargaining; that the same rules and methods which seemed fair and reasonable in dealing with individual employees were also appropriate in dealing with *groups* of employees, or rather with an institutional agency representing groups of employees. This was a mistaken view. It failed to distinguish between a plurality of individuals and a collective group of individuals. And perhaps even more importantly, it failed to recognize that in addition to the employer-employee relationship, several other relationships had sprung up — an employer-union relationship and an employee-union relationship. The latter was an entirely new one, not yet fully understood; the other, the employer-union relationship, was entirely different from the traditional employer-employee relationship.

This misconception brought several results. For one thing it caused us to make a number of mistakes in our collective bargaining policy and our contractual relationship with unions. What was good for the union or what was demanded by the union was by no means universally good for individual employees, e.g. strict seniority rules, compulsory union membership, super-seniority for union officers. Very often we made other concessions to unions because we thought it was the fair thing to do in respect of the employees. When these backfired, either because they were interpreted as a sign of weakness on our part or because they were abused by the union, an embittered reaction set in which heightened the conflict between management and the union, and even with employees.

This in turn resulted in an erroneous conclusion, in some cases, that traditional concepts of fair dealing and respect for individual rights were outmoded and that even our attitudes toward individual employees had to be governed by the same contractual considerations and other rigidities as in collective bargaining. The whole burgeoning development of personnel management based on rational and objective standards and on the "human relations approach" thus received a set-back from which it has not yet fully recovered.

These, then, are some of the things which have happened on the industrial relations management scene during the past 20 years. Where have they brought us?

First of all, the question of the recognition of unions as an integral part of industrial relations management, as well as important institutions in our society, is no longer a matter for controversey. As far as employers generally are concerned, there has been a complete acceptance of unions and the collective bargaining process — if the majority of employees have freely chosen this method of administering relations with their employer. That war is over. This is not to say that in specific situations, especially in the case of small groups of employees, professional and technical employees, supervisory

employees and office and clerical employees, representation by unions is always beneficial to such employees. Collective bargaining is by no means an unmixed blessing for employees under *all* circumstances, and in many cases, among the groups mentioned, it may on balance be detrimental to their long-term best interests. Employers should have the right and have a duty to speak up and tell employees the facts, as long as there are no threats of reprisal. Nevertheless, the principle of union recognition is no longer a major issue in industrial relations, and there are very few in management who would try to bring about, or expect, the disappearance of unions.

This does not mean that management is satisfied with the status quo. Acceptance of unions and collective bargaining does not imply an uncritical acceptance of the conduct of unions and the law governing such conduct. Unfortunately, many unions—members as well as leaders—still seem to think that the law is to be observed only when it is convenient to do so. Many examples could be cited, but the question of picketing will suffice. Probably no other law is so frequently and deliberately violated with impunity as the provisions of the criminal code on picketing. Most unions conduct a picket line as though they had a legal right to bar all access to the struck premises. To the credit of some union leaders, some efforts are being made to comply with the law, but unless authorities insist on a punctilious observance of the law, progress in this direction will be slow.

It is also essential that the law be enlarged in order that unions can be made responsible in damages, in the same manner as other individuals and organizations, when they commit a legal wrong. This would seem so elementary that it is difficult to see how any one can oppose it on any reasonable grounds. Other improper manifestations of coercive union power, such as organizational picketing, secondary boycotts, picketing in support of unlawful strikes or boycotts, union membership as a condition of employment, will have to be restricted by law. In these matters, there is at stake not merely the interests of management, but the whole public interest. The undeniable benefits brought to employees by unions, especially in the development of an industrial relations jurisprudence and job security, can be completely nullified if unions are permitted to pursue some of their present activities unregulated by law. The recognition in our combines legislation that unions have a much greater capacity and inclination than industry to harm the economic public interest through monopolistic practices is of the utmost importance.

Fortunately, there are increasing signs that public opinion and governments are getting a more accurate perspective of the role of unions in our society. In both British Columbia and Newfoundland, legislation has recently been passed imposing new restrictions on picketing and secondary boycotts and making unions capable of being sued for damages when they commit a legal wrong.[1] In Ontario, the report of the Select Committee of the Legislature, while still somewhat timid, has also recommended important changes in the law, not all of them sound but many of them steps in the right direction.

Politicians are also beginning to show signs of learning that to incur the wrath of union leaders is not necessarily to lose the votes of union members. All the evidence points to the contrary view—that labour leaders cannot deliver any substantial part of the labour vote as a body. This is probably a normal display of independence by employees, and a hedge against the dangers inherent in having both their union organization and the government under the domination of the same men.

While in the early days of industrial unionism, the so-called "liberals" in our society seemed almost unanimous in identifying themselves and their beliefs with unions, a perceptible change has taken place. In the words of one observer (Dr. Frederick Harbison of Princeton): "The one-time sympathy of liberals and progressives for the cause of organized labour has all but vanished. Unions are now big enough and powerful enough to take care of themselves. The worker is no longer a down trodden and forgotten underdog. Modern unions have become, in the eyes of the public, pressure groups looking out for the special interests of their leaders and members . . . the public has come to fear rather than to favour unions."

This is not surprising. It is difficult to reconcile the great economic power and the multi-million dollar treasuries of, say the United Steelworkers and the United Automobile Workers, with the ideals of liberal thought; or the methods of the Teamsters; nor can the expulsion of union members and the consequent denial of the "right to work" be reconciled with the liberal tradition. As another observer has pointed out: "The time is not far off when it will be considered 'reactionary' not to recognize that much of the conduct and many of the policies of unions are dangerous to society."

[1]It is notable that in all the publicity about Newfoundland, only the legislation specifically directed at the International Woodworkers and Teamsters has been mentioned. The sounder aspect of that legislation has been ignored.

Here then is where we stand in 1959. Many of the collective bargaining problems are behind us. The management of this aspect of the industrial relations function has become on the whole much more disciplined and systematic. Management is no longer tilting at windmills. We think we know where we want to go and we know more about how to get there. We have increased our collective bargaining skills. We are no longer merely on the defensive, and we are thus turning collective bargaining into a two-way process—a more creative and positive approach. We are no longer resigning ourselves to the erosion of management functions, but are insisting that they be retained and retrieved. We have learned a great deal about communications, both with our employees and with the general public, and we are no longer afraid to speak out on what we regard as issues important to our employees or to the economy. We have recognized most of our sins of omission and commission in the past, and are not inclined to make the same mistakes again. Governments and public opinion seem to be losing their illusions about the idealistic aura of unions, and are having a hard look at some of the special privileges resulting from such illusions. It seems inevitable that both the internal affairs of unions and their relations with employers and the public, will, in the future, be subjected to a great deal more regulation by law.

This is not to say that there are no collective bargaining problems ahead. There are many, and we in management will continue to have a great responsibility to perfect our present skills and to continue to strive for a more equitable balance of power, both through legislation and an enlightened public opinion. Unions must learn that they should not, and cannot, use their power over the labour market to impose economic consequences which serve only shortsighted and special interests. Nevertheless, collective bargaining will become more routine, more legalistic and more predictable.

We shall also have to extend the hand of amity and goodwill to those union leaders (and there are a number) who show signs of greater maturity, greater understanding of management's problems and a greater concern for the public interest. While there are areas of conflict which will undoubtedly continue to be irreconcilable, we should, wherever we reasonably can, enlarge the area of mutual co-operation, both in the collective bargaining relationship and in community and public affairs projects. The development of such attitudes is indispensable to our mutual survival.

But the great challenge of the future for industrial relations management lies in our attitudes toward relations with individual employees. Management philosophy must develop, in the words of Chris Argyris, "a much greater emphasis on people and human relationships". Management — and I mean all of management, not only industrial relations and personnel specialists — must devote at least as much time and effort to these causes in the future as they have to the collective bargaining problems of the past if our democratic society is to thrive, indeed, if it is to survive.

What do we mean by an emphasis on "people and human relationships"? Certainly, I conceive of this as being more than merely adopting the trappings and the jargon of traditional personnel activities. Intelligent and systematic personnel management in the form of good selection, sound salary administration, performance appraisal and proper placement procedures, are, of course essential, but we must go beyond that. We can no longer assume that by doing a reasonably good selection job and paying an adequate salary, an employee will be somehow magically and automatically motivated to contribute his best to his job. The sort of loyalty to the employer that we used to talk about as though it were a normal concomitant of the employment relationship is to a large extent merely a bit of comfortable folklore, but in any event is hardly adequate for the social and economic tasks which lie ahead for business and industry. When I talk about motivation I do not mean the kind of subliminal and manipulative Madison Avenue motivation which is now in some disrepute. I mean the motivation which comes from positive and inspiring leadership—and this means leadership by stimulation rather than leadership by control. Neither fear nor propaganda can successfully motivate people in the long run.

Communication is an overworked word, but the concept is not. Employees must be told about the objectives of the enterprise, and the problems must be patiently and intelligently explained. They must be encouraged to communicate upward also. They should be imbued with the idea that "yes-manism" and conformity are not the requirements of a good employee. Their "beefs" should not be dismissed as disloyalty or lack of co-operation or merely agitation. Their development should be looked upon and encouraged for their own sake rather than solely in the interest of the employer. As Crawford Greenewalt, president of E. I. Dupont de Nemours, has said: "The important thing to the organization is that each individual be given the opportunity to exploit his talents to the fullest and in the way best suited to his personality." In short, we must develop a sincere respect for human dignity and concern for the individual employee, rather than to regard em-

ployees merely as a group within a category. It is becoming fashionable nowadays to question the validity of the so-called "human relations approach". Probably this is merely an argument about semantics, because to be sincerely concerned about the feelings and aspirations of other people, which is really what good human relations means, would seem to be such obvious good sense that it is impossible to see how anyone could convincingly controvert it. Good human relations certainly does not mean a starry-eyed soft-headedness.

These general precepts are of course applicable to employees in a bargaining unit as well as to unorganized employees. While most of the economic aspects of employment in a unionized situation, and many of the non-economic aspects as well, have to be handled contractually, there is still a great deal of scope for consideration of the individual. Indeed, there is a necessity for it, because as a former Research and Education Director of the C.I.O. has observed: "Unions are failing at the point of their strongest claim for existence — respect for human dignity."

But the greatest scope for a more imaginative, and considerate personnel management policy is to be found among the unorganized employees—in the office, amongst the technicians and specialists, and in the junior supervisory group. These are expanding groups, not only absolutely but relative to the whole working force in industry. Some of what is called the "high talent manpower" especially demands, not a leveling but an individualistic approach. In neither case, however — whether such attitudes are developed among the organized groups or the unorganized — should they be motivated by or directed either to the elimination of unions or the prevention of unionization. Personnel policies based on such objectives will not only be suspect but will be unsuccessful.

Fred R. Kappel, President of the American Telephone and Telegraph Company, summed up the characteristics of a sound personnel management policy in the following statement: "We will do the best job, I am sure, when and only when, every boss acts on the understanding that an indispensable part of his assignment is to do everything he thoughtfully and reasonably can, to encourage the growth of his subordinates."

And this brings us to another aspect of this challenge to management — how to provide an environment for the growth and development of our supervisors and specialists at every level, not only to do a more effective job where they are, but to equip them for the heavy tasks of senior and top management which many of them will have to fulfill. The objectives here are not merely the obviously essential ones of training them to carry out the employee relations responsibilities just outlined, but to stimulate their growth in order to enable them to handle the increasingly complex general management responsibilities in an era of great economic, political, social, technological and international change. Many senior executives, including those of the Steel Company of Canada, consider the task of developing better managers the most important part of top management's job.

The term "management development" is a relatively new one. It is not merely a more sophisticated name for supervisory training. It involves a different concept than training. Training in the elements of supervisory and managerial techniques and procedures—the "how to" of management, is a continuing need, and one which, by and large, is being adequately or at least passably taken care of in any well-run company. But the methods for inducing the development of intellectually and emotionally mature managers with not only the skills and understanding but the values appropriate to a changing world are still largely experimental.

I disclaim any special knowledge on this subject, except that I know it must receive the highest priority in the long list of management problems awaiting solution. With all the humility demanded by the complexities of the problem, I should like to submit some of the conditions of and methods appropriate to the task of improving the development of managers in business and industry (none of them are original):

1. There must be high standards of performance. Mediocrity, whether in the objectives of the company or in the performance of its employees, and especially its managers, must be regarded as a challenge. It goes without saying that realistic attempts must be made to measure the calibre of performance.
2. There must be a climate conducive to the growth of the individual, and an insistence that everyone in the organization who can contribute to that climate has a duty to do so. This is merely another way of saying that a boss who does not, or cannot, develop his subordinates to succeed him has failed in his job. But it also means that strong guidance and inspiration is required from the top. There must be an awareness of the need for leadership.
3. Non-conformity, within the limits of reasonably good sense, should not be discouraged, and at the very least it should be treated with patience

and understanding. A company which permits and encourages questioning of traditional policies and procedures will be a dynamic and a healthy organization.

4. The only real development is self-development, and self-development must be encouraged and fostered. The emphasis must be on learning rather than teaching. Nothing can really replace the learning which develops under the supervision of an understanding and forward-looking boss. Deliberate delegation of responsibility and accountability and job rotation in order to get the full benefits of trial and error methods of learning are essential.

5. Nevertheless, since the conditions for such development are rarely ideal, especially in respect of other aspects of the business, development in groups by means of lectures and discussions or the workshop method will also have to be relied upon. But don't let anyone yield to the temptation of thinking that courses and seminars are all that are needed, or that the line organization can shift its responsibility for developing subordinates to a staff department.

6. Avoid "canned" programming and "gimmicks", or courses which are plainly merely window dressing. If part of your development program is to be outside the plant or office, try to define your objectives and be extremely selective in your choice of school or course. If inside, be extremely selective in the choice of leader or moderator. High standards in this field are a "must".

7. Avoid the tendency to impose a course of study which *you* think is good for your supervisors. The intelligent and insightful supervisor will have a pretty good idea of the kinds of things he needs for his managerial growth. Let him have something to say about the subject matter of the program and the method.

8. Finally, we must never lose sight of the vital link between intellectual growth in such things as emotional tolerance and intellectual objectivity, and managerial competence. Our main objectives in management development should be the improvement of management attitudes rather than merely the teaching of techniques. Dean Stanley F. Teele of the Harvard Business School has summed this up much better than I could:

> "A man's personal philosophy, his way of looking at the world and the men and women around him, determines his success as a manager of things and people more than any other single factor. His basic attitudes are far more significant than the techniques he uses . . . as we look ahead, we have reason to believe that this will be increasingly true. In short, the time may come when an evil man or one who has no clear sense of values simply cannot be an effective administrator."

COURTING TIME COMING

It is becoming more and more obvious that we are going to have to work harder to hold our own in world trade. We may have to change our ways to keep our markets.

As a nation, Canada is in the position of an old-fashioned specialty shop. It is noted for the quality of its traditional merchandise, but it has to face the fact that it is being out-sold by more aggressive stores prepared to offer lower prices and more up-to-date lines.

Preaching about integrity and experience will get the older firm nothing but reverence, and you can't eat reverence. What's needed is sales. Adding new lines and adopting new methods is the inescapable necessity.

Canada is showing signs of facing this necessity. Private facilities for financing exports are now being established with parliamentary blessing. It's a big step in the right direction.

The real test is whether we are hard-headed enough to deal, in time, with the changes in agricultural policy, cost-price relationships, and business practices which we have postponed far too long already.

We can't go on producing what is most convenient and handling it in the way that suits us best. We have to be sure that we are producing what the world wants, at a price it will pay.

In international trade, as in the corner grocery business, the customer is always right.

—*The Financial Post*

How Effective are Our Antitrust Laws?

It is the author's thesis that the history of Canada's antitrust activity has been a story of ineffectuality. In this paper, he outlines this history and gives the grounds on which he bases his charge, and suggests some guideposts for future action based on the observations of history. The author, a Canadian, is currently on the staff of Indiana University.

GEORGE W. WILSON

The story of anti-combines law and policy in Canada has, until quite recently, been substantially neglected compared with the voluminous treatment given by American economists to the U.S. antitrust laws. This is rather surprising, since both countries are free-enterprise oriented and both recognize the necessity for positive action to preserve competitive forces. It seems evident that past attempts in Canada to maintain a competitive or quasi-competitive system deserve telling in full for the sake of historical interest, as well as to indicate the successes and failures which would shed light upon what may be required in the future.

Since the publication of the MacQuarrie Report and subsequent legislative amendments, professional interest by economists and lawyers has been considerably enhanced.[1] However, while various writers have pointed out the lack of positive accomplishment up to the 1952 amendments, there has been little attempt to assess the reasons for this. While I believe that important work remains to be done in telling the complete story of anti-combines policy, my purpose here is more modest, namely, to examine possible explanations for the general ineffectiveness of anti-combines policy up to 1952, after a brief summary of the evidence upon which the assertion of ineffectuality is based.

[1]See, for example, *Canadian Bar Review,* vol. 30, June-July, 1952, where almost the entire issue is devoted to a discussion of the MacQuarrie Report. Also, the recent articles by L. A. Skeoch and Stefan Stykolt, *Canadian Journal of Economics and Political Science,* XXII, No. 1, Feb., 1956, indicate increasing professional interest and J. N. Wolfe, *Canadian Journal of Economics and Political Science,* XXIII, No. 1, Feb., 1957.

Before reviewing this evidence it should first be pointed out that since the general purpose of such a policy is to promote and/or preserve an economic system in which impersonal market forces largely determine the economic outcome, the ineffectiveness of this policy does not necessarily mean that Canadian industry has become highly monopolized, although indications are that concentration in Canadian industry is greater than in the U.S.[2] What it does mean is that, whatever the present degree of competition in the Canadian economy, the anti-combines laws and their enforcement deserve little credit. They have not necessarily "failed" in the sense that conditions contrary to their purpose currently exist; rather they have been relatively passive in the evolution of the current competitive nature of the Canadian economy. This is not altogether undesirable, since the laws could have promoted concentration as the early U.S. antitrust policy is frequently accused of doing under the so-called "double standard". Nevertheless, passivity where activity is apparently called for is scarcely a virtue.

THE DEVELOPMENT OF ANTI-COMBINES POLICY

A brief examination of the development of anti-combines law and policy supports the charge of passivity and ineffectuality. The first anti-combines act, passed in 1889, one year prior to the Sherman Act, was interpreted in the only case brought under it as mere codification of the pre-

[2]See, G. Rosenbluth, "Industrial Concentration in Canada and the United States," *Canadian Journal of Economics and Political Science,* XX, No. 3, Aug., 1954.

existing common law of restraint of trade[3] which in turn derived from British common law as exemplified in the Nordenfelt case.[4] British common law was scarcely conducive to a vigorous antitrust campaign. An early Canadian case amply illustrates this "soft" approach to monopolistic business practices.[5]

An amendment to the Act of 1889 was passed in 1900 which attempted to break with British common law precedents and create a new offence. This law was not upheld until the key case of Weidman v. Shragge in 1912.[6] Hence the primacy of common law doctrines until 1912, and the fact that there were only six prosecutions and four convictions from 1900-1910,[7] give substantial evidence that our anti-combines policy was ineffectual.

In 1910, the Combines Investigation Act was passed under the guidance of Mackenzie King, then Minister of Labour, in response to a coincidence of rising prices and merger activity. However, only one case was brought under this act and the disposition of this case did not afford effective relief.

The extreme vigor and possibly bad judgment displayed under the twin acts of 1919[9] were mainly responsible for the quick demise of the newly created Board. It lasted only six months and was finally declared *ultra vires* Dominion Government in 1921 by the Judicial Committee of the Privy Council.[10]

From the new Combines Investigation Act of 1923 until 1952, only 13 cases were prosecuted, many of them jointly under the C.I.A. and the then sec. 498 of the Criminal Code.[11] Nine of these cases resulted in fines aggregating some $650,000, two were thrown out on technical grounds, and in two cases the organizations were acquitted. Despite the fact that there were 24 major inquiries up to July, 1952, leading to a published report and "several hundred informal investigations,"[12] this is scarcely an impressive record for a 26 or 27 year period,[13] representing barely one prosecution every two years.

In short, ineffectuality may generally be inferred from (a) persistence of common law precedents to 1912,[14] and (b) dearth of cases brought between 1912 and 1952. It is, of course, true that a mere listing of prosecutions and reports does not prove ineffectiveness, since anti-combines legislation may exert a certain restraining influence. Nevertheless, the meager number of reports and prosecutions could have caused few businesses serious concern. This, combined with lack of injunctive power between 1923 and the 1952 amendment, the rather low limitation on fines (now removed), no ability to order dissolution, almost complete failure to use the tariff and patent remedies provided for in the various acts, and a cabinet frequently hostile to the administration of the act and often not in sympathy with its purposes, lends rather convincing support to the view of passivity of Canadian anti-combines legislation.

REASONS FOR THE "SOFT" APPROACH

If this is accepted, it is important to investigate carefully the reasons for this weak or soft approach to anti-competitive business practices. In the first place, the Canadian law as it is written appears potentially stronger than the comparable American law. Without undertaking an exhaustive comparison of the two, the following elements in Canadian law appear more stringent or more promotive of "hard" competition: (1) price discrimination requires "elimination of" rather than "injury to" a competitor and refers to a "policy" of discrimination, and (2) the tariff and patent provisions, if used, would be a very potent weapon of enforcement. In many other aspects the two laws appear comparable in terms of potential effectiveness. It may, therefore, be argued that the Canadian law, on its face, is at

[3]The Queen v. American Tobacco Company of Canada, 3 Revue de Jurisprudence 453-464 (1897).

[4]Nordenfelt v. Maxim Nordenfelt, 1894, A.C. 535. This case was cited frequently by Canadian courts. It held that agreements in restraint of trade were lawful and enforceable if the restraint were reasonable — "reasonable, that is in reference to the interests of the parties concerned and reasonable in reference to the interests of the public" (*ibid.,* at p. 565). Canadian law later defined the interests of the public in terms of "free competition", but the English cases involving contracts in restraint of trade have turned on the first test of reasonableness (with reference to the parties concerned) and have largely ignored the latter test (see S. F. Sommerfeld, "Free Competition and the Public Interest", 7 *U. of Toronto Law Review,* No. 2, 1948, and M. Cohen, "The Canadian Anti-Trust Laws", 16 *Canadian Bar Review,* 439-463).

[5]Ont. Salt Co. v. Merchants Salt Co., 1871, 18 *Grant's Chancery Reports* 540. In this case the court upheld an agreement among a number of salt manufacturers to market all of their salt through a trustee at a common price.

[6]46 *Can. S. C. R.* 1. This case involved a clear expression that the Act of 1900 had created a new criminal offence. For example, the Supreme Court held that: "in this case we are not called upon to consider in what respect the contract declared upon is affected by the principles of the English law as to restraint of trade," *ibid.* at p. 3.

[7]MacQuarrie Report, p. 9, L. G. Reynolds, *The Control of Competition in Canada,* (Harv. U. Press, 1940), p. 136, f. n. 10 reports only 5 cases.

[8]United Shoe Machinery Co. v. Larandeau, 2 *D.L.R.,* 77, 1912.

[9]The Combines and Fair Prices Act and the Board of Commerce Act, 1919.

[10]A. C. (1921), 191-201.

[11]After 1935 cases could not be brought jointly under both the C.I.A., and sec. 498. For a list of these 13 cases, see "The MacQuarrie Report", 30 *Can. Bar Review,* 583, f. n. 14.

[12]30 *Can. Bar Review* 563-564.

[13]There was a temporary N.R.A.-like deviation, 1935-1937.

[14]Rex v. Elliott 9 C.C.C. 520 (1905) is an exception.

least as stringent as, and probably more so than, the American.[15] In addition, it would appear that Canadian courts have been no less prone than U.S. courts to strike down certain business combinations and practices. At least the important cases brought before the courts show no great disposition on the part of the Canadian judiciary to emasculate sections of the anti-combine acts after 1900.

Thus, if the law and the courts are not at fault, this leaves only the *enforcement* of the law to bear the brunt of the blame for ineffectiveness. Why then has enforcement of the anti-combines laws been weak in the face of a relatively strong statute and a not-unsympathetic judiciary?

At the outset it must be emphasized that the agency responsible for administration of the law can scarcely be blamed. It has constantly been hampered by lack of funds and personnel. For example, the budget of the Combines Investigation Commission for the 1951-52 fiscal year amounted to only $248,000 and to barely over $300,000 in fiscal 1953. The staff in 1952 was only 32 including clerical help.[16] It would thus appear that the appropriations limit enforcement, which would indicate lack of government (i.e., cabinet) willingness to attack monopolistic business activity. The blame would appear to lie with Cabinet Ministers and Parliament who have failed to offer the means and incentive to make the anti-combines laws effective. Explanations for this attitude may conveniently be divided into economic and non-economic categories. Looking first at non-economic rationalizations it may be suggested that the British attitude with respect to business combinations until fairly recently has tended to pervade Canadian thinking, even though the tests of the Nordenfelt case and the application of the British common law dealing with restraint of trade were explicitly overturned in Weidman v. Shragge.

Another factor is the misunderstanding on the part of business, government and the public as to the economic and non-economic benefits of a competitive system. Thus the purposes of anti-combines laws have not been made clear to business. "Most businessmen do not know of the law or completely misunderstand its objectives and effect, or are violently opposed to it."[17] One of the reasons for the latter is ignorance of its purposes. For example, J. D. Ferguson, President of the Canadian Manufacturers Association, stated, in attempting to excuse recent offences against the anti-combines laws, that guilty pleas by rubber companies[18] "did not mean for a moment that they were admitting they had done anything detrimental to the public."[19] A reading of the report bears out Mr. Justice Schroeder's view that the companies had admitted a combine with features "so obnoxious to the welfare of the community, that if extended the effect upon the public might become disastrous."[20]

NEED FOR UNDERSTANDING

It seems obvious that the basic purposes and methods of the anti-combines laws require wider publication. In this respect, the MacQuarrie Report is a step in the right direction. Blind, violent business hostility does not augur well for sensible, constructive policy. Understanding is a prerequisite to successful enforcement, and it appears to be lacking at the present time.

Less convincing is the possibility that Canadian business behaviour may be more restrained than American, or at least its adverse features tend to be less well publicized. Canada has never had such controversial business leaders as Rockefeller, Vanderbilt, Gould and company with their flagrant abuses of economic power. Consequently, an ingrained mistrust of bigness or monopoly power is not as prevalent in Canada as in the U.S.

Without going into any details of judicial interpretation of the British North America Act, suffice it to say that there is a lack of federal power in Canada commensurate with that of the U.S., which tends to limit the ability to promulgate effective legislation. The danger of encroachment upon provincial rights is always present.[21] On the surface this may seem to conflict with our previous conclusion that Canadian anti-combines law is probably stronger than American—on its face. However, this may merely reflect the fact that the constitutionality of an Act is seldom tested until its actual application and effect has been demonstrated. Many of the potentialities of the Canadian law have not been realized. It will be recalled that the vigorous activity of the Board of Commerce was quickly quashed in 1921. Hence Canada's *ability* to legislate in the antitrust field seems to be more limited than that of the U.S. However, it is not believed that this is a crucial difficulty, nor that this is a major explanation of the apparent weakness of the Canadian law.

[15]Reynolds, *op. cit.*, p. 170 supports this view also (i.e. "the limited effectiveness of the Combines Act is not due to inherent weaknesses" p. 171).

[16]Figures cited in 30 *Can. Bar Rev.* 571. Both staff and appropriations have been expanded in recent years which is further evidence of a "new era" in anti-combines development.

[17]I. M. MacKeigan, 30 *Can. Bar Rev.* 604.

[18]*The Rubber Report*, and subsequent prosecution Apr. 8, 1953. Case citation not available.

[19]Reported by the *Ottawa Citizen*.

[20]*Ibid.*

[21]For a detailed discussion see Reynolds, *op. cit.*, chap. IX.

We must also mention as a possible explanation the prevalence of the "business" point of view among Members of Parliament.[22] For example, Mr. H. H. Stevens, one-time Minister of Trade and Commerce, said in referring to the Combines Investigation Act of 1923: "My chief criticism of the bill is that in effect it declares to be a crime that which is without question ordinary, sound business sense."[23] This attitude scarcely augured well for vigorous enforcement of the Act.

ECONOMIC REASONS

Turning to economic reasons for weak enforcement, it may be suggested that Canadian economic development has been quite satisfactory, although less dramatic than early U.S. progress, and especially rapid since the outbreak of World War II. Canada is still in the frontier stage, with abundant natural resources calling for exploitation. To the extent that business has performed this task in what the public and Parliament deem a satisfactory manner, then economic progress becomes identified with business practices, and if the public can be led to believe that combinations to effect "orderly marketing," etc. are necessary to foster economic development, it is unlikely that the government would place obstructions in the path of such a universally desirable goal.

Again, since the business cycle in Canada can more easily be blamed on the state of health of the U.S. economy or U.S. tariff policy, because of its over-riding influence on Canada, then Canadian businessmen are exempt from much social censure as causal agents in the business cycle. Thus the mere existence of the anti-combines laws and an occasional prosecution may be adequate to placate the public and Parliament.

Another economic factor may be fear of "frightening-off" foreign investment (in particular, that of the U.S.), which has and is currently playing a major role in Canada's post-war boom. The more stringent and "harrassing" the antitrust policy, other things being equal, the more reluctant will be foreign capital to locate in Canada.

Again many Canadian corporations are subsidiaries of British or American firms which may be more sensitive to Canadian laws as such approach or become more stringent than those of the home country.

In addition, Canada, being a young nation, can more convincingly adopt a generalized version of the "infant industry" argument for tariff protection. That is, the government can more justifiably adopt the view that its duty is to foster and protect native business enterprise rather than to attack it. Furthermore, as a nation heavily reliant on international trade, the practices of the export industries may be sanctioned, even though non-competitive, as necessary to compete with foreign cartels in the world market—much the same type of argument underlying the Webb-Pomerene Act in the U.S. Attacking such practices, it can be argued, may reduce Gross National Product through a reduction in Net Foreign Investment.

Finally, antitrust enforcement may be tempered in Canada by the "inevitability of oligopoly" argument. That is, it may be reasoned that oligopoly (few sellers, many buyers) is inevitable in Canada, or at least more nearly inevitable than in the U.S. Canada with a population about one-tenth that of the U.S. has a domestic market severely constricted in comparison. Thus, adoption of the large-scale American industrial techniques geared for a much wider market, may mean that in the mass-production field at least, a few physical plants may suffice to supply the domestic market at remunerative prices. Few plants mean few firms; hence the greater inevitability of oligopoly. If such be the case, then how to promote competition on the basis of price in the light of a natural oligopoly situation in many areas? At the very least, this argument has more relevance to Canada than to the U.S.

WEAKNESSES

All of the above "economic" arguments or excuses are those which *could* be advanced as justification for a soft approach to anti-combines enforcement. That there are weaknesses in them is obvious. For each of them save perhaps that of impeding foreign investment, it is possible that promotion of competition via vigorous anti-combines enforcement would: (a) increase the rate of economic development by preventing restrictive agreements and practices, (b) increase Canada's export trade by offering lower, competitive prices, increased output and better quality, and (c) increase the uncertainty in an oligopolistic situation with respect to the matching of individual price concessions, by prohibiting any trade association activity which eliminates uncertainty and price competition. This would lead to greater potential, workable compe-

[22]Reynolds believes that "few would deny that the policies of Canadian Governments since Confederation have been predominantly shaped by businessmen." (*op. cit.* p. 272). It is even believed that from 1867 to 1887 the House of Commons was heated with wood much to the discomfort of the members as the chamber was alternately too hot or too cold. Wood was used, it is claimed, partly because "the government had convenient connections with Ottawa lumbering interests." (*Canadian Journal of Economics and Political Science*, Vol. 18, p. 431.)

[23]Hansard, 1923, p. 2524.

tition even where oligopoly is prevalent and natural, and may engender more desirable economic consequences.

As to the "frightening-off-foreign-investors" argument, it is not believed that a more effective anti-combines policy would have the assumed impact. Short-run, "pure" profits constituting a reward for risk-taking and innovating, would still be potentially high and attractive, and merely preventing such profits from becoming insulated from competitive forces and perpetuated by monopolistic, exclusionary tactics, should scarcely deter the initial investment and exploitation of an opportunity. So long as opportunities exist in Canada, the so-called mature economies will continue to exploit them whenever the potential return is greater than in their native countries. It would appear that the Canadian tax structure, rather than even effectively-enforced anti-combines laws, is of more significance as a deterrent or incentive to foreign investment.

SUGGESTED ACTION

It would thus seem that the telling reasons for weak enforcement are non-economic. If then Canada is to promote competition, as is urged by the MacQuarrie Report, the following suggestions are offered:

1. Make the public aware of the socially-undesirable business practices currently in vogue and their probable effects upon the cost of living, incomes and employment. This requires no more than a wider re-affirmation of the long established emphasis on publicity. In this respect, it is suggested that the new Agency undertake an analysis of the extent and effect of such practices, situations, etc., and give the results the widest possible publication.
2. Parliament should provide a careful statement of the objectives and purposes of the anti-combines laws, and emphasize their positive (i.e. preserve and promote a free enterprise system) rather than negative (i.e. prohibit certain practices deemed to have a detrimental effect) aspects. The MacQuarrie Report is consistent with this view.
3. Attempts should be made to explain this carefully to business so that the type of thinking exemplified by Mr. Ferguson cited earlier can be corrected. In this regard, it is suggested that members of the Board and Agency meet and address business groups and discuss particular as well as general aspects of the law. This is being done at present, but should be carried on more extensively to eliminate blind opposition.
4. If oligopoly is inevitable in Canada, then workable competition must become the economic guide to public policy rather than a pure competition model emphasizing market structure.[24]
5. To implement the above, greater staff and appropriations are essential; this is a familiar cry of governmental agencies, but in this case it is submitted that a staff of less than 50, including clerical help, is inadequate to implement an effective anti-combines policy and undertake the necessary research.

In closing, let it be said that if Canada is embarking upon a wave of economic expansion, now is the time to lay down "rules of the game". In eras of rapid economic change, such rules are more apt to be neglected than in quieter periods. Thus, if the changes are to be carried forward in a manner which protects the public, the law must be clear and command respect. Neither clarity nor respect has been evident in the past, due primarily to weak enforcement.[25] At present these requirements seem urgent in view of the impending expansion which may give rise to great concentration of economic power in many key areas. If such combination and concentration are deemed undesirable, it is much easier to prevent it from becoming a *fait accompli* than to unscramble the corporate eggs at a later date. If Canada is entering a new era in anti-combines policy, as seems apparent, it is a heartening sign, albeit none too soon.

[24]But as I have suggested earlier, workable competition should become the standard for the Commission, not the courts. See George W. Wilson, "Anti-Combines and Injury to the Public," *Canadian Journal of Economics and Political Science,* XXIII, No. 1, Feb., 1957.

[25]That is, not enough cases have been brought under the various sections of the law to give a clear interpretation of them.

ARE CANADIAN UNIONS CANADIAN?

I believe it to be a fact that in no other country but Canada (except perhaps in the Russian satellites), are labor policies guided from abroad. Nor does the labor movement in any country but Canada contribute so largely to the financial support of labor union organizations in another country whose economic interests and trading policies are often in conflict with ours.

—W. V. Sculley, President,
Steel Co. of Canada Ltd.

Stock Options for Management

The topic of stock option plans for management has received much attention of late through studies of the management of our oil and gas industry. That such plans have some limitations and require skillful application has not always been fully understood. The author here presents some facts, figures, and conclusions regarding option plans for management.

JOHN F. GRAHAM

Interest in stock option plans has reached a high level in Canada during the past 10 years, caused primarily by the progressively confiscatory income tax rates on management people in high salary brackets. The fact that there has been a bull market for the past decade as far as common stocks are concerned has also contributed to this interest. This paper is an attempt to look at stock option plans in general and to examine some of the financial and taxation implications of such plans; it will not describe option plans in detail, since the variety of these plans can be almost infinite. The provisions of any stock option plan should be tailored to meet the requirements of the particular company that is going to use it.

STOCK OPTIONS VS. STOCK PURCHASES

A distinction should be made between stock option plan for executives, and stock purchase plans for employees. A stock purchase plan for employees differs from a stock option plan for executives in several respects. A purchase plan for employees allows the employee to buy an amount of stock on a time basis. The amount of stock the employee is allowed to buy is usually tied to his earning power, and the employee pays a fixed price for the stock. Generally the company lends him the funds, and he pays for the stock after purchase by way of payroll deduction. From the employee's standpoint, the stock purchase plan is inflexible and can lead to many problems, especially when the price of the stock declines. A stock purchase plan for employees is generally granted for reasons that are quite different from those connected with executive stock option plans. Employee plans give an employee a better appreciation of the capitalistic system by making him a stockholder; they encourage thriftiness; they give the employee a sense of identity with the fortunes of the company; and they can provide large amounts of capital. Like closed-end mutual funds, stock purchase plans for employees were very popular in the 1920's. The market crash of 1929 brought an end to this popularity, because at the same time that workers lost their jobs, they frequently lost a substantial amount of the investment value of the stock they had purchased. If they did not lose their jobs, they were understandably reluctant to, or could not, pay for stock that had probably dropped severely in value relative to the price they had contracted to pay for it. To aggravate this situation further, their wages had probably been reduced from pre-1929 level.

Stock purchase plans for employees have never made much of a comeback from the 1929 debacle. The National Industrial Conference Board found, in a 1928 study, that there were 389 companies in the U.S. in 1927 with stock purchase plans for their employees. In a more recent study made in 1953, the N.I.C.B. found that there were only 22 such plans in operation in the U.S. These statistics indicate quite dramatically the decline in use of stock plans for the rank-and-file employees of industry.

Another factor in the unpopularity of such plans could be union opposition to employees as stockholders. Union representatives believe, and probably rightly so, that stock purchase plans are paternalistic and hence are to be avoided.

Stock plans for employees have generally left a bad taste in both the mouths of management and employees. Any company considering them should tread

lightly and carefully weigh their unsuccessful past history. The remainder of this paper will be concerned with stock option plans for executives, which have had a more successful past.

WHAT IS A STOCK OPTION PLAN?

A stock option is simply another means of compensating the executives of a company. It is the selling of stock to executives at price that is usually less than the market value at the time of the sale. Professor C. A. Hall offers this definition:

> Stock Option plans as forms of executive compensation are corporate agreements to sell stock to executives on favourable terms in return for services. These options are granted usually with nontransferable rights (except for beneficiaries). They are to be distinguished from rights to purchase new stock issues and stock purchase warrants, which are rights arising in the course of relations between corporations and security holders rather than relations between corporations and employees. In option plans, the compensation received is not actually disbursed by the corporation, and this peculiar circumstance leads to much confusion in determining the amount of compensation received and the time when it is received by the executive.[1]

Whether or not to enter into a stock option plan for executives is a decision that generally is and should be made by either the shareholders or their representatives, because the granting of stock option rights to executives will ultimately affect the ownership rights of the common shareholders. Stock options are not always beneficial to all concerned; there are disadvantages, and option plans do backfire.

The National Industrial Conference Board[2] recently published a study of stock option plans for key officers. They surveyed all Canadian companies that were listed on the stock exchanges and found that 38 had option plans for their executives. Of these, 30 provided the N.I.C.B. with enough information to take a close look at their plans. This report indicated that option plans are most prevalent in industries that are undergoing a period of rapid expansion: they are used either to acquire the services of senior management, or to keep the incumbent senior management from being lured to another company. Pipeline, oil, and gas companies were the most frequent users of the plans. Most priced their optioned stock at approximately the market value of the stock at the time the option was granted, and required their executives to pay in full for stock taken up at the time the option was exercised. The findings further indicated that all of the 30 plans reviewed had been started since 1950, and that the life of a typical option plan runs from five to 10 years. The company officials involved generally expressed the belief that their plans had been successful, but this should perhaps be expected, since the general trend of the stock market has been significantly upwards since 1950.

THE SUCCESSFUL PLAN: BENEFITS

The current popularity of option plans and the interest in them is probably a product of both the high income taxes on big salaries, and the constant erosion by inflation in recent years on the purchasing power of the dollar. A successful option plan gives the executive the opportunity to receive compensation at a relatively low special rate of tax. It also gives him the opportunity to hedge against the threat of inflation. The company that is involved in an option plan for its executives usually uses the plan for one or more various reasons. In one company it may be used as a tool to acquire the services of an executive it wants to hire. In another, it may be used as a method of rewarding loyal executives, ensuring that the company keeps the services of executives it already has, or to make management part-owners of the enterprise and thus give them more inducement to produce profits. From a company's standpoint, it is difficult to measure the success of an option plan except in the case where it is being used as an inducement to get a particular person to work for them: if he comes, it is successful; if he doesn't, it isn't. Where it is used as an incentive, if profits do increase, who can say that the stock option plan is responsible? There could be many much more valid explinations for the increase. From the executive standpoint, the success of a plan is much easier to measure: if the value of the stock stays significantly high over the option price, presumably the option plan is a success; if the value declines and stays below the option price, the plan will presumably be considered a failure.

THE UNSUCCESSFUL PLAN: DANGERS

If the value of the stock declines and the plan is unsuccessful from the executive's standpoint, it is also unsuccessful from the company's standpoint. Where a plan has backfired the management are probably going to be unhappy and dissatisfied. This is a serious danger inherent in stock option plans; no com-

[1] *Effects of Taxation on Executive Compensation and Retirement Plans* by C. A. Hall. (Division of Research, Graduate School of Business Administration, Harvard University, Boston, 1951.) pp. 15-16.

[2] National Industrial Conference Board, Inc., Conference Board Research Reports, Canadian Studies No. 1, "Stock Option Plans In Canada".

pany wants this to happen, so it is extremely important that an option plan be successful. There are also minor problems connected with option plans. If the plan is such that the executive's whole investment program is in the company's stock, the executive is in an extremely vulnerable position. If the particular company gets into difficulties of one sort or another that cause the value of the stock to decline, the executive may lose a substantial amount of his investment security. At such a time as this he may also find himself either out of a job or with a drastically reduced salary because of the company's predicament. In other words, when the executive finds himself in a situation where he really needs his investment security most, he would find it had declined in value. Companies should be careful not to option more stock to an executive than he can afford and at the same time expect him to keep all the stock optioned to him. If the company does not mind him exercising the option and then selling the shares he cannot afford, this is presumably all right as long as it fits the company's objectives and the option plan.

In a company using an option plan for executives, there is considerable danger that the people involved may get too enthusiastic about being "owners" of the company. As such, they sometimes become so emotionally involved that they look upon equity financing with disfavour because it would dilute their holdings. They might prefer to do all financing by way of debt in a period or in an industry where equity financing was preferable. Even though the option plan itself is a source of capital to a company, it is usually a relatively minor source. It also comes in at such irregular times that a company cannot count on it.

It is often said that stock option plans don't cost a company anything since a company doesn't have to pay out anything. This of course is not true, since a company foregoes what it could have received for the stock if it had been able to sell the stock elsewhere. Assuming that a company options its stock at $10 a share, and an optionee exercises his option when the stock is selling for $20, then the company has lost the extra $10. Therefore, a stock option plan certainly can and does cost a company money. The cost is the amount that a company doesn't receive, but could have received if it had sold the stock to the public rather than to one of its management team.

STOCK OPTIONS AND TAXES

The Income Tax Act is interested in stock option plans for executives only to the extent that the executive receives a benefit *at the time he acquires the stock*. The benefit is the difference between the fair market value of the share at the time of acquisition[3] and the price the individual actually pays under the terms of the option plan. This section of the Act applies only to employees and not to others outside the company (e.g. investment dealers, promoters) who may be granted options on corporate stock. Since there are no capital gains taxes on stock transactions in Canada, any further increment in the market value of the shares after acquisition is not taxable.

The two alternate methods allowed for calculating the tax on the benefit are:

1. The executive may add the amount of the benefit to his current income and pay tax on the whole amount at the income tax rates in effect that year for his total amount of income.

2. The executive may take the average rate of tax he has paid during the three previous tax years (the ratio of total income taxes to the total income for these three years); he then applies that average rate to the amount of the benefit. From the amount this produces, the Act allows a deduction of 20% of the amount of the benefit. The resulting amount is the special tax payable on the stock option benefit. In addition, the executive has to pay the regular income tax on his other earned income for that year.

The individual who gets the benefits is currently allowed to elect one of the two above methods to calculate his income tax for the year in which the benefit is realized. It is quite possible that the benefit will be wiped out if the market price of the stock falls subsequent to the exercise of the option. The individual, however, is still liable for the tax on the initial benefit, even though the benefit is a paper profit and isn't actually realized until he sells the stock. If the price of the stock falls below the option price after the option was exercised, the executive would of course be forced to pay taxes on a gain which he did not realize. Since such a situation would not be good for management morale, a stock option plan is dependent on an increasing market value for the stock if it is to be successful.

Stock option plans get a different tax treatment in the United States than in Canada. In the U.S., from 1945 until 1950, the option benefit at the time the option was exercised was taxed as regular income of the recipient. Since the optionee received no money at the time he exercised the option unless he sold the stock, this made executive stock option plans unpopular. However, the law was changed in 1950; now

[3]If there is no market value established for shares that are optioned, there will have to be an imputed fair market value established that is acceptable to the taxation authorities. This same problem arises in establishing succession duties for estates where there are shares with no established market value.

the individual is not taxed at the time of exercising his option as long as the option price is 85% or more of the fair market value of the stock. If the option price is 95% or more of fair market value, then the total benefit to the optionee when he sells the stock is treated as a capital gain (and as such is taxable at the 25% capital gain rate in effect in the U.S.). If it is between 85% and 95%, then the optionee has to include in his current taxable income, at the time he disposes of the shares, the lesser of either the fair market value established at the time the option is granted, or the price he actually receives for the shares. Any excess is treated as a capital gain. If the option price is less than 85%, then any benefit has to be considered as normal compensation and is taxed at the applicable tax rates. In other words, the option price can be either fixed at the time the option is granted, or it can be expressed as a percentage of the market price at the time the option is exercised.

There are many other differences the tax authorities have created between U.S. and Canadian option plans. To cite a few:

In the U.S. the optionee cannot sell his stock within two years of the date of the option agreement, or within six months after the option has been exercised if he wants to take advantage of the tax law;

If the optionee owns more than 10% of the company's stock, the option price must be at least 110% of the fair market value.

There are no such restrictions as this in Canadian law. Canadian tax law obviously offers much freer rein to management in establishing stock option plans. The major difference between the two countries is that in Canada the optionee pays a tax on the as-yet-unrealized benefit, whereas in the U.S. the optionee is not liable for tax until he disposes of the stock and has actually realized his gain (or loss).

THE TANNER STOCK OPTION

A reasonably good example of a stock option plan in operation is contained in the Borden Report on Energy.[4] This report devotes a considerable amount of space to the stock options to the executive of, and others connected with, Trans-Canada Pipe Lines Limited. The report itself in no way attempts to evaluate either the individual plans or stock option plans in general. As far as the Borden Commission was concerned, they were interested only in whether the stock options affected the price of natural gas to the consuming public or not. Its conclusions in this respect are as follows:

[4]*Royal Commission on Energy*, First Report, October, 1958.

"In view of the Commission the issue of shares prior to the public financing of Trans-Canada in 1957 and the granting of these options did not and do not affect the price paid or payable by Trans-Canada to producers of natural gas or the price for which Trans-Canada is selling or will sell natural gas."

To illustrate how stock options work, the option to Nathan Tanner, President of Trans-Canada Pipe Lines Limited, will be used. The plan in this case was used as an inducement to get Mr. Tanner to accept the position of President of the company. There was also a management contract with Tanner by which he was guaranteed the chief executive's job for five years from March 9, 1954 at a salary of $35,000 per year, and for the payment of $15,000 per year for each of the five years following his retirement from the company. The stock option agreement allowed Tanner to purchase 60,000 common shares of Trans-Canada within five years of March 9, 1954 at $8 per share. This was not, then, a case of rewarding a loyal employee with an option on company stock; rather it was a case of using the stock option to acquire the services of a competent executive. There was also a further option arrangement granted Tanner, but since it was connected with Trans-Canada only indirectly, it will not be considered here. This was an option extended to him by the companies that were involved in the promotion and financing of Trans-Canada Pipe Lines and not by Trans-Canada itself.

Tanner exercised his option for 15,000 shares on February 1, 1957, and for 40,000 shares on February 6, 1957. As at the time of the Commission hearings in June, 1958, Tanner still had an option on the remaining 5,000 shares which had to be exercised before March 9, 1959. This probably was exercised, since the shares have been selling at substantially more than the price of $8 a share. The public financing of Trans-Canada took place on February 13, 1957. The public were obliged to buy Trans-Canada securities in packages of one $100 debenture and five common shares at a value of $10 a share for a total of $150 a unit. The veiled criticism that the Borden Commission makes of this package is that the public were at a disadvantage in buying their common shares, since they also had to buy the debentures. This was three years after the management option agreement was made, and the alacrity with which the units were snapped up makes it seem doubtful that the public thought themselves to be in a disadvantageous position.

The effect of Tanner's option agreement can be readily illustrated with the liberty of a few assumptions. First, let us assume that Tanner had no income in 1954, 1955 and 1956 other than his $35,000 salary from Trans-Canada. Secondly, assume that the only

deductions Tanner had were his personal marriage exemption of $2,000. Tanner's income taxes for the years 1954 to 1957 inclusive would then be as shown below:

	1954	1955	1956	1957
Total Income	$35,000	$35,000	$35,000	$35,000
Taxable Income	$33,000	$33,000	$33,000	$33,000
Income Tax Payable	$12,720	$12,390	$12,060	$12,060

During the period 1954 to 1956, Tanner had an assumed total income of $105,000 and a total income tax of 35.4%. Since Tanner picked up his option on 55,000 shares of Trans-Canada just a week or so prior to the public issue at $10 a share, it is assumed that the $10 price was considered as the fair market value of the shares for tax purposes. At the time of picking up the option, Tanner realized an immediate benefit on paper of $110,000, since he only had to pay $8 for the stock.

The two alternative methods available to him for computing his income tax in 1957, the year in which he realized the benefit, are shown as follows:

Alternative 1:

Tax on $35,000 Total Income (From Chart 1)	$12,060
Plus Special Tax—35.4% on $110,000 Option Benefit	$38,940
Gross Tax Payable	$51,000
Less Special Deduction—20% of the Option Benefit	$22,000
Total Income Tax Payable	$29,000

Alternative 2:

Total Income	$35,000
Less Personal Exemption	2,000
Net Income	$33,000
Plus Option Benefit	$110,000
Total Taxable Income	$143,000
Income Tax Payable on $143,000	$77,710

It is obvious that alternative 1 is the method that would be elected, since it would provide Tanner with $48,710 more after taxes than would alternative 2. The method used in alternative 2 would rarely be used, although undoubtedly there would be occasional instances where it would be more beneficial to use this alternative. Tanner would have effectively paid only an extra $17,060 for the $110,000 gain he made at the time of the option. As at June 1, 1958, Tanner had disposed of only 9,000 of his 55,000 shares, for which he received approximately $263,000. Assume that he (or other members of his family) still has the remaining 46,000 shares plus the 5,000 he had to take up before March, 1959. At the low market price for the first six months of 1959 of $25 a share for Trans-Canada, Tanner has made, for an investment of $480,000, an actual gain of $191,000 on the 9,000 shares he sold and he still has a paper profit of $867,000. Assuming the market value was $25 and that he exercised the option for the remaining 5,000 shares in 1959, he would have had to pay a special tax on this of $13,090. He has, then, a largely unrealized capital gain of $1,058,000, and has only had to pay an extra $30,000 in special taxes to make it. Of course, Tanner had no guarantee that the stock option arrangement would be profitable when he took it in 1954. He took the risk that it would, and it has paid off.

Trans-Canada Pipe Lines is a good example, both of one type of company that uses option plans, and why they use them. In early 1954 it was still a risky venture that needed capable, well-known, mature management to get it established as a going concern. The attractive stock option plan was probably most responsible for getting the type of management Trans-Canada needed at that time. Because of the high tax rates on executive-level salaries, it would probably, by salary alone, have taken fantastic amounts to lure the best management team.

SUMMARY

Stock purchase plans for employees are used for different purposes than stock option plans for management. The problems involved in the operation of a stock purchase plan suggest that companies should carefully weigh the risks involved before undertaking such a scheme for their employees.

A stock option plan is one method of compensating management that can get around the progressively confiscatory income tax rates in effect on high salaries. Option plans are, however, dependent on the market value of company stock for success: as long as the market value stays substantially over the market price, the plan should meet with some success. Since there has been a bull market for the past decade, most option plans have probably been successful from the executives' standpoint. From the company's standpoint, the success of the plan is often difficult to determine, since the purpose is usually to give more incentive and reward successful management. This cannot readily be measured in quantitative form.

From the standpoint of cost, it must be emphasized that although an option plan does not take cash directly out of the company, the company's treasury has lost, in quantitative terms, the difference between the option price and what the company could have sold the stock for elsewhere.

A company undertaking a stock option plan for its key management people should take into consideration the optionee's ability to pay for the optioned shares. If it is obvious that it will take every cent that the individual can scrape together to pay for the optioned stock, then it is also obvious that the individual's investment program is completely tied to the future of the company. A serious decline in the value of the stock would certainly have an adverse effect on the morale of management, especially in the foregoing situation. Objectively, option plans should be so tailored that the individual involved will not be risking his whole savings program on the future of the company.

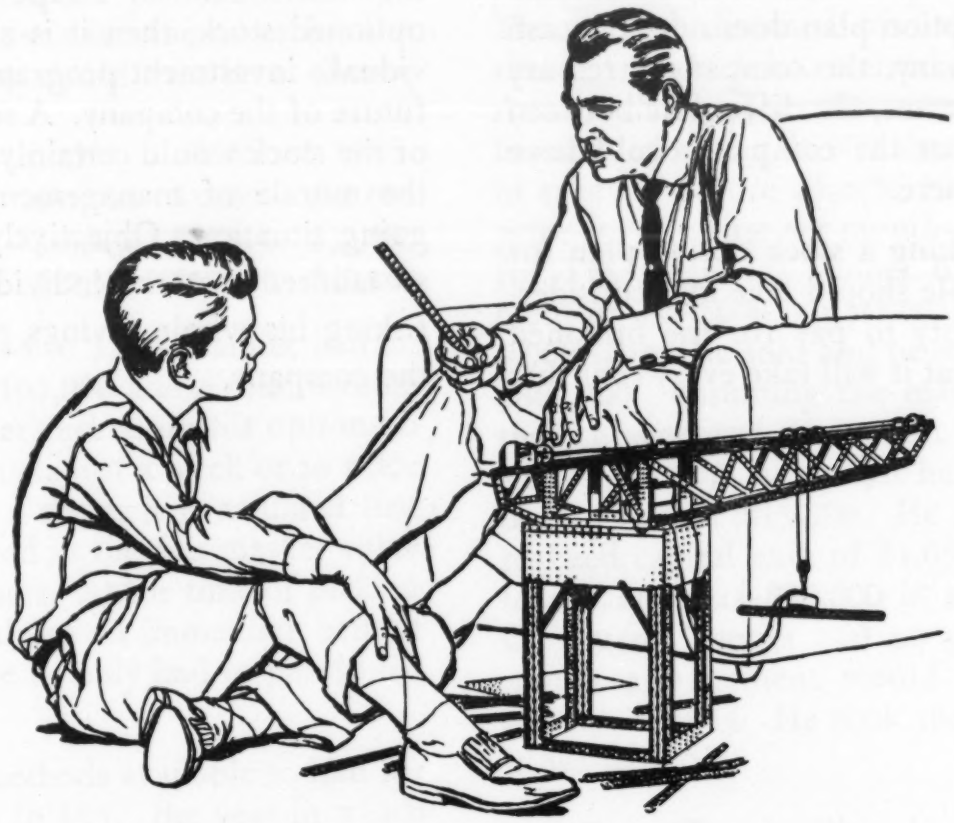
DON'T FENCE THEM IN

We who are concerned with administration of large organizations are learning that management development programs are not corrals into which managers are driven to be graded, branded, and then improved. We are learning also that analyzing the performance of managers is not a judicial process or a mystic rite and that managers at all levels have strengths and weaknesses. In short, we are beginning to see the danger of monolithic management training programs.

Although they can upgrade the management force, they can also create inflexible management thought by destroying or rendering ineffective the necessary balance of personality and intelligence, the interplay of which creates vitality within the organization.

There is another danger in massive training programs. Well-staffed and supplied with a "student hunting" license, they have a way of spawning other training programs. The time has come to unmask the costly non sequitur that "training is good because it's training". If we are not vigilant, we can find ourselves prisoners, not masters, of our sprawling heterogeneous training enterprises.

—Charles W. V. Meares,
Vice-President, Personnel,
New York Life Insurance Company.



When the Men in the Family Get Together . . .

Those private 'man-to-man' talks are precious moments. They are a time for talk and a time just for looking — to watch the development and curiosity of youth. In this country, there is much for a boy and his father to share. An awareness of the expansion and growth of Canada is a major opportunity . . . exciting to both young and old.

Just as you and your boy share in our prosperity, so does Steel play a major role in Canada's growth.

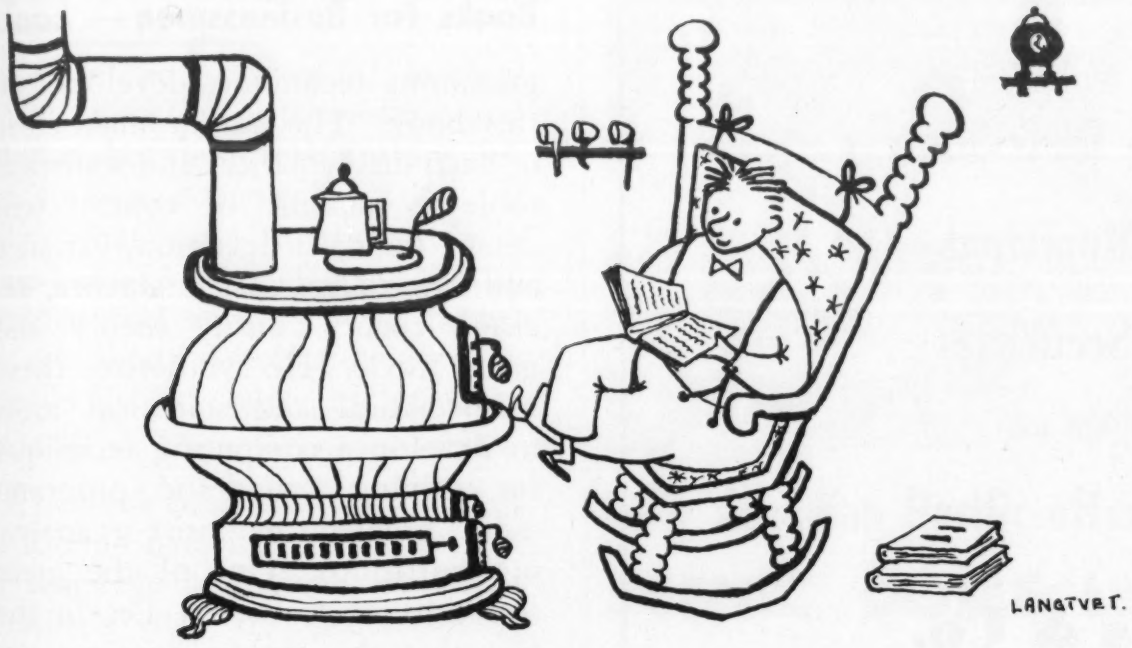
To meet the rapid expansion of our country, the Steel industry must keep pace. STELCO alone has invested about 150 million dollars in plant and equipment in the last ten years, and will spend more than another 100 millions in the next five years.

Great needs create great opportunities. For you now, and for your son in later years, Steel offers satisfying and rewarding careers of unlimited scope. Look to Steel for you—and your son.

STELCO
THE MARK OF QUALITY

THE STEEL COMPANY OF CANADA, LIMITED

HAMILTON - MONTREAL



BOOKS FOR THE BUSINESSMAN

Reviewed in this Issue		*Reviewer*
PORTFOLIO SELECTION	Harry M. Markowitz	*John A. MacArthur*
THE EXECUTIVE OVERSEAS	John Fayerweather	*John G. Myers*
STRATEGY AND MARKET STRUCTURE	Martin Shubik	*Andrew Grindlay*
NEW DIMENSIONS IN COLLECTIVE BARGAINING	H. W. Davey, H. S. Kaltenborn, S. H. Ruttenberg	*R. E. Sproule*

PORTFOLIO SELECTION

by Harry M. Markowitz. John Wiley & Sons, Inc., New York, 1959. 344 pp., $7.50.

Portfolio Selection represents an important step forward in the kind of thinking that is being done today regarding investment portfolio analysis.

Dr. Markowitz has specialized in the application of electronic computers and advanced methods of analysis to practical problems. At the RAND Corporation from 1951 to 1957, he analyzed problems of industrial capacity, military capability and logistics support. His current position as a consultant with a large manufacturing organization involves the application of computer and analysis techniques to problems of production and inventory control. This book is based upon research conducted by the author in 1956 at the Cowles Foundation for Research in Economics, at Yale University.

The dynamic programming techniques outlined by Markowitz in this volume are designed to produce what he calls "efficient" investment portfolios. As the author defines this term, a portfolio is efficient when it is impossible to obtain a greater average return without incurring greater risk; conversely, a portfolio is said to be inefficient if it is possible to obtain greater certainty of return with no less expected return.

While it is obvious that the essence of portfolio management is the optimizing, from the standpoint of the investment objectives of each portfolio, the balance between risk of return and rate of return, it is perhaps less clear, in this writer's opinion, that the commonly-used "principles" of portfolio management are adequate or give optimum results. In view of the great variation between investor objectives, security types, number of available securities, and the pressures involved in managing what is often a relatively large number of accounts, is it possible for the portfolio manager to seriously think in terms of optimizing, in each portfolio, the desired balance between risk and expected return? The techniques developed by Markowitz in this book are designed to produce better investment strategies by means of advanced statistical and mathematical procedures. Although investment managers have tended to lag in this regard, many industrial and commercial organizations have access to the mathematical tools used by Markowitz in this book.

Although this book was written primarily for the non-mathematician, it is the feeling of the reviewer that few people without some familiarity with the concepts covered in the area of finite mathematics will be able to follow the development of the pro-

continued on next page

Purchasers and Distributors
of Government, Municipal and
Corporation Securities

•

A. E. Ames & Co.
Limited

Business Established 1889

TORONTO MONTREAL NEW YORK LONDON, ENG. VANCOUVER
VICTORIA WINNIPEG CALGARY LONDON HAMILTON OTTAWA
KITCHENER ST. CATHARINES OWEN SOUND QUEBEC BOSTON, MASS.

JEFFERY
&
JEFFERY

Barristers, Solicitors, Etc.

174 King Street

London Canada

Jack Willis Wm. McIlroy

Albert Lawrence

MOORE - SMYTH
WILLIS
Limited

General Insurance

Telephone GE. 2-7558

260 Dundas St. London

gramming techniques developed in this book. The author makes use of such mathematical and statistical tools as measure of control tendency, standard deviation, variance and co-variance, matrix algebra, decision theory, utility theory and game theory. He synthesizes these mathematical and statistical tools to develop a computing technique for solving "quadratic programming" problems that arise in analyzing portfolios. One of the great strengths of this book lies in the fact that the author does an unusually good job of explaining the underlying tools and their relevance to the problems involved in portfolio management.

While *Portfolio Management* will be difficult going even for those readers with some sophistication in modern mathematics, it is well worth the time and study involved. Any reader who is serious about getting something out of this book will be able to read and understand enough of it to make its purchase worthwhile. It does a particularly good job of introducing the reader to some of the new and still - developing mathematical tools and techniques available to the portfolio manager. And, because of the general applicability of these tools and techniques to management decision-making, this book will generate important new ideas for readers not specifically interested in portfolio management.

John A. MacArthur,
Research Staff, U.W.O.

THE EXECUTIVE OVERSEAS

by John Fayerweather, Syracuse University Press, Syracuse, N.Y., 1959. 195 pp., $4.00.

Prof. Fayerweather's new book makes a major contribution to the study of international business. It

continued on next page

concerns the problem of international executive relationships and what makes these relationships differ from a domestic situation. It asks: what must American executives know to work effectively in an international setting? What he has to say about American executives applies also, of course, to Canadians as well.

The book concentrates on a study of foreign personalities rather than of language or custom. In Fayerweather's view, the understanding of personalities leads to a natural understanding of the deeper levels of language and custom.

The study is based on two years of field research, and the author's wide experience in dealing with foreign nationals. The broad social-science approach, plus the author's ability to convey complicated concepts in an interesting and simplified way, has produced a compact and well-written volume of major significance to businessmen doing business abroad.

It is Fayerweather's thesis that American (and Canadian) executives must have an understanding of the different attitudes and motivations of foreign people if they are to work effectively with them. Different attitudes and motivations spring from differences in culture, which he describes as "an integrated pattern of beliefs on the basis of which men learn to live with their environment". Culture, in his opinion, strongly influences individual personality, the understanding of which forms the basis for effective communication.

The author looks at personality in two ways. The first of these is based on an analysis of the individual's concept of other people and his relationships with them: people are either individualistic or group-oriented. Many foreigners, because

Continued on Page 188

Enquire about low-cost Family Train Travel Plan.

Only Canadian Pacific offers Tourist and Coach

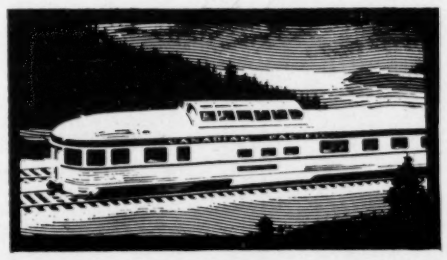
SCENIC DOME Low Cost Rail Travel

Here's the way to really see Canada's scenic wonders . . . from panoramic Scenic Domes aboard "The Canadian" and "The Dominion". Only Canadian Pacific offers the advantages of Scenic Dome travel across Canada . . . Coaches with full-length leg rests and adjustable head rests — Tourist, First Class . . . berths, roomettes, bedrooms, drawing rooms. Make your next trip an exciting experience . . . see Canada close up, stopover enroute if you wish . . . All at no extra fare!

Full information and reservations from any Canadian Pacific office.

Canadian Pacific

LONGEST DOME RIDE IN THE WORLD
Daily service between Montreal-Vancouver; Toronto-Vancouver



Portfolio Management

Accounts entrusted to our care are kept under constant supervision by our Portfolio Department working in close conjunction with our Research staff.

This service includes quarterly reviews and valuation of holdings. Clients are kept informed of important financial and corporate developments which affect their interests.

Your enquiries are invited

Greenshields & Co
Limited

507 Place d'Armes, Montreal

Members of Montreal and Toronto Stock Exchanges

"Chairs and window frames! Everyone's using aluminum. Why not in our products?"

Chairs that are strong, smart and light...durable window frames that are rustproof, corrosion-resistant and maintenance-free. What next? Every day people are coming up with bright new ideas for this versatile metal — ideas never dreamed of a few years ago. All this excitement about aluminum has been inspired by the development of new alloys, improved fabricating and welding techniques—and continuing consumer demand.

PERHAPS ALCAN ALUMINUM AND ALCAN KNOW HOW CAN HELP YOU IN YOUR BUSINESS. ALCAN are the people to see about everything concerning aluminum. They are leaders in its development and set its standards of quality. ALCAN has over fifty years' experience in aluminum and is the major source in Canada for aluminum sheet, wire, rod, bar, tubing, foil, extrusions, castings and ingot.

ALUMINUM COMPANY OF CANADA, LIMITED
An Aluminium Limited Company

Quebec • Montreal • Ottawa • Toronto • Hamilton • Windsor • Winnipeg • Calgary • Vancouver

ALCAN

Canadian Taxation and the Businessman

K. W. Lemon, F.C.A.

Once again Canadian taxpayers are faced with a decision of The Income Tax Appeal Board which denies to them some of the protection which Parliament intended to provide under the provisions of The Income Tax Act. This continuation of a trend which has been evident for some years cannot help but be a source of concern to the Canadian business community.

In order to provide some finality to the liability for tax and to protect the taxpayer from assessments for additional tax long after the taxation year in question, Parliament has provided in Section 46 of the Income Tax Act that, except in cases of fraud or misrepresentation, re-assessments may be issued by the authorities only within four years from the date of the original assessment issued in respect of the year in question. This limitation, welcome though it may be, still places the taxpayer at a relative disadvantage as he is permitted only 90 days (rather than the four years allowed to the authorities) to re-open an assessment issued to him.

Any comfort which taxpayers may have drawn from this protective section has been largely destroyed by the decision of The Income Tax Appeal Board in the case of an unfortunate taxpayer referred to anonymously as Mr. 590. The details of Mr. 590's appeal are not important except that he objected to the receipt of a re-assessment for a substantial amount of tax issued some four years and one month after he had received an original assessment. In reply to the distressed taxpayer's objection the Board held that the mailing to the taxpayer of a revised notice of assessment within the prescribed four years was not necessary — the mere action of completing the revised assessment was all that was required. As there was no evidence to show that the physical act of re-assessing had not been completed within the four years, the appeal was dismissed. The fact that the taxpayer was not notified of the action of the authorities until after the expiry of the four-year period was held to be of no significance. In the words of the Board—"I can find no authority for the proposition that the sending of a notice of assessment within the four year period mentioned in Section 46(4)(b) is essential in order for the assessment to be complete and valid. It appears to me to suffice if just the assessment is completed within this period."

If this decision remains as established law on the question, the supposed protection of the four-year limitation will become largely meaningless and Canadian taxpayers will remain subject to assessment notices issued at any time as long as the assessor's work has been performed within the four-year period. This will result in an intolerable situation in which no taxpayer can be assured that his liability for tax has been finally established.

This case will serve as another example of how the intentions of Parliament can be circumvented by the precise, legalistic interpretation of words chosen without sufficient care in the drafting of a taxation statute. Canadian businessmen will rely on their Parliament to enact such amending legislation as may be necessary to restore to taxpayers the protection originally intended.

Canadian Law and the Businessman

PETER V. V. BETTS

Approximately two years ago (Winter 1957) we drew attention in this column to the so-called "trust fund provision" of the Mechanics' Lien Act, which imposes a trust on money paid to builders and contractors. They are to hold the money in trust for their workmen and suppliers and not spend it themselves until all are paid in full. Or, put another way, the contractor does not own the money he receives for the job but only what is left after paying workmen and suppliers. Our earlier comment referred to Minneapolis v Empire Brass, 1955 S.C.R. 694, where the recipient of money subject to the trust was forced to return it to the trust fund. In that case the recipient went into the situation with its eyes open. It was familiar with the operations of the contractor and knew or should have known that the money which came into its hands was part of a trust fund.

The case caused some concern among bankers who frequently lend money to contractors on the security of an assignment of their book debts. Since a contractor's book debts by their very nature are almost bound to be impressed by such a trust, the banks would appear to have genuine cause for concern. The same principle was involved in Fonthill Lumber v Bank of Montreal, 1959 O.W.N. 232. There the bank seized a contractor's bank account to satisfy a debt owing to the bank under a promissory note. The bank was met with the argument that the money which it had seized was part of a trust fund belonging for the most part to the contractor's workmen and suppliers under the provisions of the Mechanics' Lien Act, and that the bank could get no better title to the money than the contractor. The bank's reply, which on the facts was not successful, was that it had no notice of the trust and thus took free of its provisions.

Basically, if A is the owner of property and lends it to B who sells it to C, then A — the true owner — can reclaim the property from C without compensation. However, if A gives the property to B in trust, and B sells it to C, much depends upon the state of C's mind when he takes the property. If C knows of the trust, then as before A can reclaim the property without in any way compensating C. But if C in good faith and without notice of the trust gives valuable consideration for the property, the law will not enforce the trust against him.

In order to succeed, the bank must at least show that it gave valuable consideration for the trust property and that it had no knowledge of the trust itself. If a contractor keeps a separate Trust Account, and the bank seizes the General Account and trust funds turn up in the General Account, it is easy to see how the bank could say it had no notice of the trust. But where only one account is kept it is difficult to see how the bank can escape notice. Presumably it knows its customer's business, undoubtedly knows what jobs the contractor is engaged in, and in fact usually watches the payments pretty closely to make certain they go through the bank. Under the circumstances, it is difficult to see how the bank can be heard to say it had no notice of the trust, and the court so held.

The banks are left in an awkward position. The Bank Act itself prohibits them from financing a contractor's day-to-day operations by lending on the security of real estate. The traditional role of the banks therefore came to be to lend on the security of monies which the contractor would receive in the future, normally known as book debts. The bank, before actually lending the money, would obtain from the contractor an assignment of such book debts and would expect the money to be paid to them rather than to the contractor when the contract was complete. In practice, of course, the banks would then recoup themselves, and if the bargain made by the contractor had been an improvident one, there was frequently not enough left to pay the contractor's workmen and those who had supplied materials on credit. Whether the trust fund provisions were inserted in the Mechanics' Lien Act to rectify this situation or merely to prevent the contractor himself from absconding with the proceeds of a contract is a moot point, but the result is clear and appears to apply with equal force to a loan made on the security of a fluctuating bank balance unless contractors can be persuaded to keep separate Trust Accounts.

So far this case, like its predecessor the Minneapolis case, has received little publicity and yet its effects in the field of banking and commerce could be felt widely. Barring a successful appeal to the Supreme Court of Canada, bankers will either have to change their methods of lending where contractors are involved or take a calculated risk in each case, and as Fonthill Lumber v Bank of Montreal becomes better known and understood the risk will become considerably greater, no doubt to the detriment of the contractor rather than the banker.

IN MOMENTS OF CRISIS—CONFIDENCE COUNTS

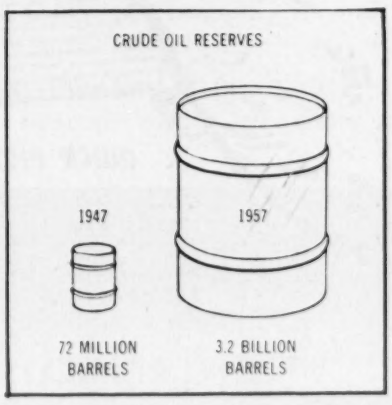
Imperial's 78 years of leadership has helped Canadians take for granted the reliability of oil and oil products

Reliability implies an adequate supply of the products you depend upon . . . when and where you need them, at reasonable prices.

Imperial has always been the leader in ensuring Canadians of an adequate supply of oil. Imperial's discovery of oil at Leduc, in 1947, opened the vast western oil fields.

The first oil company to supply consumer needs in all Canada's provinces, Imperial has nine refineries from Halifax to Vancouver (and in the Northwest Territories) to meet the local needs of Canadians.

Imperial has always been the leader, too, in a highly competitive industry which must seek . . . by broadening markets and increasing efficiency . . . to keep prices down. Over the past ten years, while prices of things in general have risen 134%, regular gasoline has gone up only 11%.



Since Leduc, Canadian crude oil reserves have increased 45 times.

Esso IMPERIAL OIL LIMITED

IMPERIAL OIL . . . FOR 79 YEARS A LEADER IN CANADA'S GROWTH

McLEOD, YOUNG, WEIR & COMPANY
LIMITED

DEALERS IN

GOVERNMENT, MUNICIPAL AND CORPORATION SECURITIES

50 King Street West
Toronto
EMpire 4-0161

276 St. James Street West
Montreal
Victor 5-4261

Ottawa Winnipeg London Vancouver Hamilton
Calgary Kitchener Quebec Sherbrooke Windsor
Edmonton New York

QUICK PICTURE:

You will find, in our Commercial Letter, a quick but accurate survey of current commercial activities in Canada, a concise review of foreign trade developments, the latest statistics on trade, industry and finance, authoritative articles on special aspects of Canada's economy. Your local manager will gladly place your name on our mailing list, or just write to:

THE CANADIAN BANK OF COMMERCE
HEAD OFFICE • TORONTO
B-757

of their cultural backgrounds, are primarily individualistic, and their approach to management tends to be authoritarian rather than democratic. This approach, when confronted with the group-oriented American, presents a block to communication between them. One Mexican attitude, for example, is that it is more important to maintain a friendly relationship with the superior than to carry out his wishes. He therefore could be smiling in agreement to a suggested plan of action, but have no real intention of carrying it out.

The second approach to analysis of the foreign personality is based on a study of the individual's personal characteristics. The author shows how cultures affect the individual's powers of innovation, analysis and action, and that the differences among different cultures present formidable blocks to executive action, due to different attitudes and different concepts of what is important in an executive decision.

The last personal characteristic studied is human motivation. Material benefits, social position, and work satisfaction all vary according to the cultural background and personality traits of the individual. Interesting sidelights on this section of the book are the author's findings on the social status of businessmen. In Germany, for example, the businessman has a high social position, whereas in Mexico, it is low, falling behind lawyers, doctors, educated specialists, engineers, government officials and military officers.

The solution to these communication blocks are analyzed in a chapter called "Learning: Problems and Possibilities". Blocks to the learning process arise from the difficiulties of changing an individual's habits, cultural patterns and learning atti-

continued on next page

tudes, says Fayerweather. The learning process can be facilitated by American executives, by having them provide foreigners with the initiative for change, and by providing a sounding board on which they can test themselves.

In the last two chapters, the author discusses the problems facing the United States executive in a foreign environment and the broader implications of the study. Some significant truths are presented. "No one wants to be a second class citizen, least of all an ambitious executive. Yet that, to a greater or lesser degree, is the status of virtually all foreign executives in United States companies." The Mexican's tendency is to react to criticism by the patterns of the authoritarian system: the words of the superior are unilateral dictates rather than one side of a democratic process of exchanging views. The usual open-minded American criticism may offend the Mexican and make him react covertly and defensively "so that the frankness of the superior is destructive of the freedom in communication which he is attempting to build". The right approach lies somewhere between authoritarianism and purely democratic management. In Mexico, American executives could work towards this by a real understanding of the word "simpatico". This does not, however, necessarily imply a sympathetic approach. The executive must be "neither a listener nor a sympathizer", for by being so, "he is a threat to the security of the individualistic personality. There is a fine line between being responsible for, and concerned about, your men and yet respecting the privacy of their lives. The man who is 'simpatico' has a good sense of where the line is."

The author suggests that some areas are open to improvement by

continued on next page

Midland Securities CORPN. LIMITED

MEMBERS: The Investment Dealers' Association of Canada

Canadian Government, Municipal and Corporation Securities

The Midland Company LIMITED

MEMBER: The Toronto Stock Exchange
The Montreal Stock Exchange
The Canadian Stock Exchange

Stock orders executed on all Exchanges

London, Ontario: Huron & Erie Building
Toronto, Ontario: 50 King Street West
Sault Ste. Marie, Ontario: 114 March Street
Montreal, Quebec: 215 St. James Street West
St. Thomas, Ontario: 354 Talbot Street
Kitchener, Ontario: 2 Queen Street North

G 6004

Loans ***for capital expansion***

Many industrial enterprises with good prospects but in need of finances will be started or expanded this year in a way that provides a sound basis for development through the financial assistance of the Industrial Development Bank.

idb **INDUSTRIAL DEVELOPMENT BANK**

Established in 1944 by the Government of Canada to help in financing new or expanding small and medium sized enterprises.

Information about I.D.B. financing can be obtained from your banker, auditor or lawyer or from the nearest office of the Industrial Development Bank listed below:

I. D. B. regional offices

Vancouver	1030 West Georgia St.
Calgary	513 Eighth Ave. West
Winnipeg	195 Portage Ave. East
Toronto	250 University Ave.
London	291 Dundas St.
Montreal	901 Victoria Square
Quebec	955 Chemin St. Louis
Saint John	35 Charlotte St.
Halifax	65 Spring Garden Road

Clarkson, Gordon & Co.

CHARTERED ACCOUNTANTS

Montreal	**Winnipeg**
Toronto	**Regina**
Hamilton	**Calgary**
London	**Edmonton**
Windsor	**Vancouver**

The BANK of NOVA SCOTIA

MONEY PROBLEMS?

solve them with a low-cost loan through

SCOTIA PLAN

Books for Businessmen — cont.

United States companies and that better relationships can be developed by: 1) upgrading the quality of men sent abroad; 2) improving training techniques for foreign work; 3) developing executive skill in dealing with foreign executives.

The book is comparatively short, 195 pages. The author uses the case history approach to simplify the concepts he is trying to convey, and makes reading and understanding easier through the use of chapter summaries. The book will provide fascinating reading for anyone interested in the problem of understanding other societies, and should be a "must" on the bookshelves of businessmen and government leaders whose work concerns international business. From works such as this will come a clearer understanding of many international problems.

John G. Myers,
Lecturer in Business
Administration, U.W.O.

STRATEGY AND MARKET STRUCTURE

by Martin Shubik, John Wiley and Sons, Inc., New York, 1959, 387 pp., $8.00.

While game theory itself is not new, having been developed just after the turn of the century, its application to our everyday problems is in the pioneer stage. In this book Dr. Shubik shows how the technique can be applied to certain aspects of economic analysis, permitting greater insight into the whole realm of competitive situations. The book is written in such a way that it can be followed by those without previous acquaintance with game theory; an early section is devoted to explaining the fundamentals of such a theory.

continued on next page

Shubik discards as unrealistic assumptions of pure monopoly or perfect competition, and starts with the assumption that all business situations are oligopolistic, with limited and imperfect knowledge available regarding competitors and customers, demand and supply. He approaches the economics of the firm as a game with rules, payoffs and players, basing his discussion of the formulation of an economy or a market as a game of economic survival.

In his final chapter, called "Economic Analysis, Social Policy and Law", Dr. Shubik examines some U.S. antitrust laws and suggests that they need revising, even if only to the point of reading into them more economic analysis.

While written in a style that the businessman will appreciate, this book will probably be of greatest interest to the academic or staff economist who is interested in learning how game theory can be applied to economics.

Andrew Grindlay,
Instructor in Business
Administration, U.W.O.

NEW DIMENSIONS IN COLLECTIVE BARGAINING:

Industrial Relations Research Association Series

Edited by H. W. Davey, H. S. Kaltenborn, S. H. Ruttenberg. Harper and Brothers, New York, 1959. 203 pp., $3.50.

This book consists of nine papers, prepared by economists and labour relations experts from such universities as Cornell, California, Ohio State, Chicago and Michigan State.

As editors, Professor Harold Davey of Iowa State College; H. S.

continued on next page

CANADA'S
GROWTH . . . STRENGTH . . . AND HEALTH . . .
ASK THE FINEST

Our Answer
is this mark

CANADA PACKERS
PLEDGE OF FINEST QUALITY

Wherever you see this Canada Packers' pledge of finest quality you have assurance that everything is being done that our research people — our suppliers — our plant people — our distributors can do to give you the very best possible products of their kinds.

THE
MILDEST BEST-TASTING
CIGARETTE

Cochran, Murray & Co.
LIMITED

Member
Investment Dealers' Association of Canada

•

Cochran, Murray & Hay
LIMITED

Member of the
Toronto Stock Exchange

Dominion Bank Bldg., Toronto, Telephone EM. 3-9161
Hamilton **Kitchener** **London**

8748

Canada's Finest Gasolines

SUPERTEST

and

SUPERTEST PREMIUM

At The Sign of The MAPLE LEAF

SUPERTEST
ALL CANADIAN

Books for Businessmen — cont.

Kaltenborn, Vice-President of Industrial Relations Counselors Inc.; and Stanley H. Ruttenberg, Director of Research AFL-CIO, have divided the submissions into five general areas.

These are, briefly:

1. The AFL-CIO Merger and Collective Bargaining
2. Collective Bargaining and Technological Change
3. Collective Bargaining and Employee Security
4. Appraisal of Long-Term Contracts
5. Public Policy and Collective Bargaining

While the reviewer found the book of singular interest as a personnel practitioner, it is my opinion that it would probably not be of great interest to anyone without a specialized interest in the field of personnel relations. Such matters as union jurisdictional disputes, problems involved in union mergers, and the operational impact of the Taft-Hartley Act upon collective bargaining relationships are not, as a rule, of primary concern to the operating executive. However, some of the conclusions drawn concerning such vital issues as automation, negotiation of health and welfare plans, long-term contracts and automatic wage adjustments should be of interest to any management man whose activities touch on the increasingly important field of labour-management relations.

Due to differences between American and Canadian labour and social security legislation, much of the discussion concerning the impact of governmental intervention and legal restrictions is not relevant to the busy *Quarterly* reader.

continued on next page

for sales:

a complete packaging service from design to final production

Somerville packaging will emphasize the outstanding features of your product . . . and sell it on sight.

- Folding cartons
- Set-up boxes
- Bags
- Wraps
- Custom-created point-of-sale displays

Call your nearest Somerville representative now for help with your packaging problems.

6224

SOMERVILLE
LIMITED

Sales Offices: LONDON - *Montreal - Toronto*
Peterborough - Kitchener - Hamilton - Windsor

Sales representatives from coast to coast

Books for Businessmen — cont.

In all seriousness I would suggest that the Industrial Relations Manager read this book at his leisure, making a brief précis of the conclusions in relevant chapters for the appropriate operating executives. A great deal of carefully-documented speculation concerning future trends in collective bargaining is crowded into the chapter endings.

R. E. Sproule,
Instructor of Business
Administration, U.W.O.

Ottawa Newsletter cont.

And finally, Washington sources announce that Prime Minister John Diefenbaker will address the NATO Parliamentarians Conference in Washington in November, on the subject: "North America and European Economic Integration" — although at this writing there seems to be no confirmation of this engagement in Ottawa.

It is apparent among all political parties here that the western allies cannot fight the economic war successfully against the communist bloc if we continue to fight each other in this field. Obviously, Canada, with our market of 17,500,000, cannot survive economically in a trade war against a U.S. market of 175,000,000 and a European market of 250,000,000.

So, just as obviously, the question is widely seen here to be an imminent, not "What might we do?", but "What must we do?"

CANADIAN PROBLEMS in MARKETING

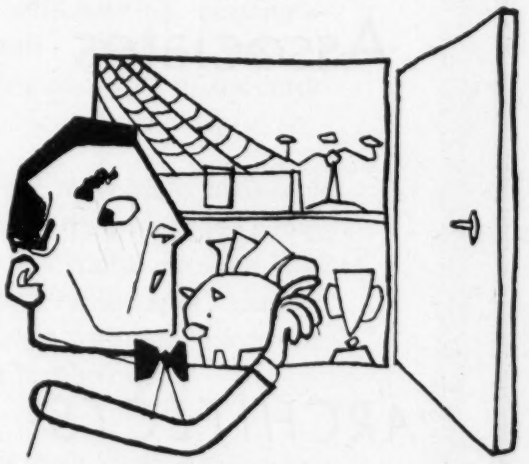
David S. R. Leighton, D.B.A.
and Donald H. Thain, D.B.A.

School of Business Administration
University of Western Ontario

The first book on marketing in all its aspects, written especially for Canadians. In 84 cases, with explanatory text, it deals with the whole subject of marketing in Canada, from forecasting and budgeting to personal selling and advertising. Every Canadian businessman who is concerned with selling a product or service will find this book an invaluable guide.

$9.75

McGRAW-HILL



Keeping valuables at home?

Protect hard-to-replace papers and other valuables from fire, theft and loss. Rent a BNS Safety Deposit Box today.

The BANK of NOVA SCOTIA

Dealers in
Government and Corporation
Securities

Monthly Bulletin upon request

Ross, Knowles & Co. Ltd.

25 ADELAIDE ST. W. EM. 8-1701 TORONTO

Hamilton Brantford Windsor London
Sarnia Sudbury Niagara Falls Brampton

Members: The Toronto Stock Exchange
The Investment Dealers' Association of Canada

About Our Authors cont.

George W. Wilson, Associate Profesor of Transportation at Indiana University, received his B.Comm. from Carleton University, M.A. from Kentucky and Ph.D. from Cornell. He has been an economist with the Department of Labour and the Board of Transport Commissioners in Ottawa, and from 1955 to 1957 was Assistant Professor of Economics at Middlebury College, Vermont. At present he is on leave from Indiana University having been granted a one-year fellowship in the Institute of Basic Mathematics for Application to Business at Harvard. He is the author of many articles on a variety of topics, and a former contributor to the *Business Quarterly.*

John F. Graham, currently teaching accounting, finance and investment management at the School of Business Administration, U.W.O., obtained his M.B.A. at Western in 1958. Prior to this he spent five years with the Bank of Montreal, having obtained his B.A. from Assumption University in Windsor. Mr. Graham contributed an earlier article to the *Business Quarterly* on stock prospectuses.

O. Roy Moore
Associates

□

ARCHITECTS

□

260 Dundas Street

London Ontario

CARROTHERS,
FOX, ROBARTS
& BETTS

C. C. Carrothers, Q.C., B.A., LL.B., F.C.I.S.
William H. Fox, Q.C., B.A.
Hon. John P. Robarts, Q.C., B.A., M.L.A.
Peter V. V. Betts

Telephone GE. 4-3208

Offices Richmond Building

371 Richmond Street

London Canada

An Important Message to

Professional Men

Business Executives

Purchasing Personnel

From our new plant we continue to give the dependable fast service, the outstanding workmanship and distinctive printing for which this Firm is well noted.

Call GLadstone 1-6600 or write P.O. Box 293 and have our representative call and give you a quotation on your next printing or lithographing requirements.

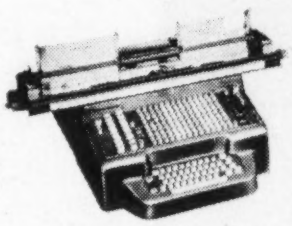
Hunter PRINTING LONDON LIMITED

125 Elm St. corner Pine London

Telephone GLadstone 1-6600

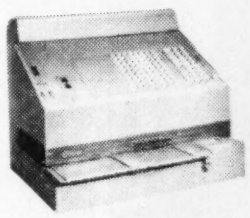
P.O. Box 293

. . . before you invest in Office Automation investigate



ACCOUNTING MACHINES

REMITTANCE CONTROL



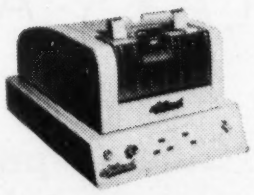
WINDOW POSTING

ADDING MACHINES

DESK MODEL BOOKKEEPING

CLASS 21 SALES* TRONIC*

CLASS 6000 SALES TRONIC*

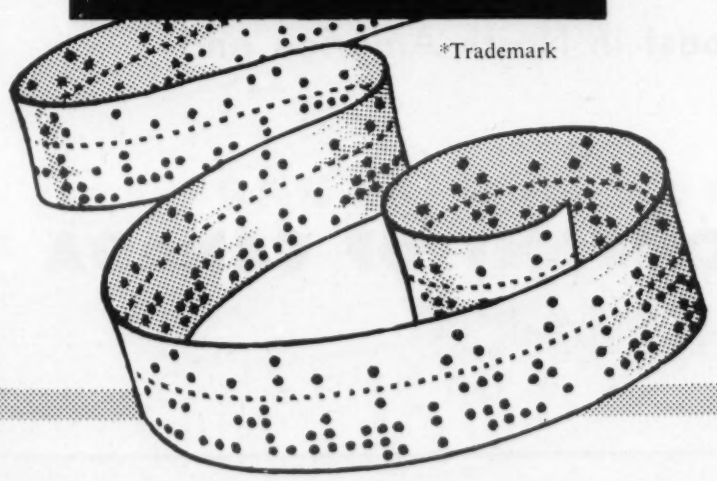


MEDIA READER

National

CASH REGISTERS · ADDING MACHINES
ACCOUNTING MACHINES

*Trademark



National

Here are 5 reasons why . . .

1. With National, you can plan your timetable for office automation NOW. Factory-wired machines can be installed for conventional accounting today—and later programmed to conform with your automation requirements.

2. With National, selected machines in use today can be wired and programmed to punch paper tape or cards. This will reduce your overall capital investment for office automation.

3. With National, you have a versatile line of Data Originating Machines to solve various accounting problems. The selection of the proper machine assures you the most efficient system for your specific control problems.

4. With National, you know all data is accurate. Two automatic, self-checking circuits — "Answer-back" and "Parity Check" — control the reading-punching accuracy of the information recorded.

5. With National, every machine is adaptable to the requirements of the processing equipment of your choice. Flexible programming of processing codes permits "on-the-spot" changes right in your office to conform with your Electronic Accounting Department of tomorrow.

Your National Representative will gladly explain how you can cut clerical costs, eliminate work duplication, and secure faster reports. He will tell you how National machines installed Today can become part of your Integrated Data Processing System of Tomorrow. Phone him now—it could be the most profitable call you will make all year.

THE NATIONAL CASH REGISTER COMPANY OF CANADA LIMITED
HEAD OFFICE: TORONTO, SALES OFFICES IN PRINCIPAL CITIES

ONE THOUSAND DOLLARS A MINUTE

Every working day the Sun Life of Canada pays out an average of one thousand dollars a minute to its policy-holders and their heirs. Since organization $3 billion in in policy benefits has been paid by the company.

Canada's largest life insurance company, the Sun Life is one of the world's great life offices, with branches and representatives from coast to coast in North America and in many other countries.

SUN LIFE ASSURANCE COMPANY OF CANADA

Head Office — Montreal

Canadians, more than any other people, benefit from electric power. Abundant low-cost electricity is one of the important reasons for so many busy factories . . . greater production of goods . . . and better paying jobs. In offices, on farms, and in homes, everywhere, electric power makes life easier and more enjoyable.

What Does LBE Mean to You?

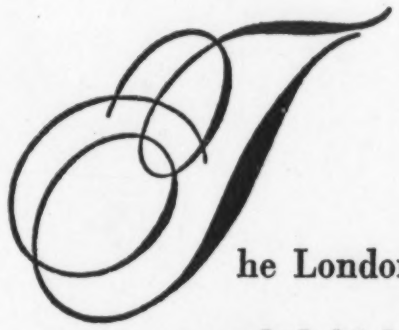
LBE stands for "Live Better . . . Electrically", and these words have a very real meaning behind them.

In the home, for example, planned lighting brings new charm and cheerfulness to every room. Modern appliances in the kitchen and laundry save time and toil. Other appliances contribute to our leisure and entertainment. Automatic heating and air conditioning add to our comfort. There probably isn't an area in your home that cannot be equipped electrically to give *more* convenience, *more* comfort, and *more* service.

In home, office or factory the first essential is an up-to-date wiring system — to get the best results from the electrical products now in use, and provide for those you expect to acquire. Your local power company, your provincial Electric Service League, or any qualified electrical contractor will be glad to provide expert advice and help you to plan to "Live Better . . . Electrically".

CANADIAN GENERAL ELECTRIC COMPANY
LIMITED

Manufacturers of equipment that generates, transmits and distributes electricity
. . . and the wide variety of products that put it to work in home and industry.



he London Life Insurance Company has now exceeded $5 billion in life insurance in force. This is three times the amount of ten years ago, and the last billion dollars of insurance was added in just over two years.

This rapid growth is an excellent measure of the good work of the London Life sales force — all of whom, incidentally, operate in Canada. It is also an indication that their work, and the Company's record of providing insurance at low cost, is appreciated by the Canadian public.

LONDON LIFE INSURANCE COMPANY

Head Office: London, Canada